

ENLARGED EUROPE, SHRINKING RELATIONS?
THE IMPACTS OF HUNGARY'S EU MEMBERSHIP ON THE
DEVELOPMENT OF BILATERAL RELATIONS BETWEEN
NEW ZEALAND AND HUNGARY

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ABSTRACT

The background to this study lies in the discrepancy between the special economic and foreign-political importance of the EU for New Zealand and New Zealand's low foreign-political interaction and visibility in the 12 new EU Member States. This explorative study is the first of its kind to investigate from New Zealand's viewpoint whether any potential connection points or areas of common interest may exist between New Zealand and Hungary as one of the new EU Member States which might foster directly or indirectly New Zealand's national interests in the European Union (EU). Owing to the broad nature of such an inquiry, the study encompasses the political, diplomatic, commercial, scientific, and cultural interactions of the two countries from the 1970s until 2007.

The theoretical framework of the study builds on Small State Theory, its limitations for the special setting of the thesis topic, however, suggested a necessity to incorporate the Theory on the Role of Ethnic Networks in International Trade. The explorative nature of the research topic required a qualitative research design, based on interviews, questionnaires, and case studies in New Zealand and Hungary in the years 2005 and 2007. Research results were compared with macro-level statistics and official analyses where available to support and enhance analytic validity.

The thesis concludes that a solely trade focused foreign policy would not bring the advantages desired by New Zealand. Instead, the research suggests various alternative areas and ways to serve cost effectively New Zealand's foreign political goals not just in Hungary but also in the Central and Eastern European region in general.

ABBREVIATIONS

ANZUS	Australia-New Zealand-United States Security Treaty
CAP	Common Agricultural Policy
COMECON	Council of Mutual Economic Aid
COREPER	Committee of Permanent Representatives
EC	European Community
ECSC	European Coal and Steel Community
EEC	European Economic Community
EEZ	Exclusive Economic Zone
EKA	Független Ellenzéki Kerekasztal (Independent Oppositional Round Table)
EU	European Union
FIDESZ	Fiatal Demokraták Szövetsége (Alliance of Young Democrats)
FKGP	Független Kisgazda Párt (Party of Small Farmers)
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GDR	German Democratic Republic
GSP	Generalised System of Preferences
HRU	Hungarian Rugby Union
IMF	International Monetary Fund
ISPA	Instrument for Structural Policies for Pre-Accession
IWC	International Whaling Commission
KDNP	Keresztény Demokrata Néppárt (Christian-Democratic People's Party)
KSH	Központi Statisztikai Hivatal (Hungarian Central Statistical Office)
MDF	Magyar Demokrata Forum (Hungarian Democratic Forum)
MFAT	Ministry of Foreign Affairs and Trade
MP	Member of Parliament
MSZMP	Magyar Szocialista Munkáspárt (Hungarian Socialist Labour Party)
MSZP	Magyar Szocialista Párt (Hungarian Socialist Party)
MTKI	Magyar Tejgazdaság Kutató Intézet (Hungarian Dairy Research Institute)
NATO	North Atlantic Treaty Organisation
NCRE	National Centre for Research on Europe

NZ	New Zealand
NZTE	New Zealand Trade and Enterprise
ODA	Official Development Assistance Mechanism
PACER	Pacific Agreement on Closer Economic Relations
PGG	Pyne Gould Guinness Ltd.
PHARE	Poland and Hungary: Assistance for Restructuring their Economies
RAMSI	Regional Assistance Mission to Solomon Islands
SAPARD	Special Accession Programme for Agriculture and Rural Development
SZDSZ	Szabad Demokraták Szövetsége (Alliance of the Free Democrats)
TRADENZ	Trade Development Board New Zealand
TVNZ	Television New Zealand
UK	United Kingdom
USA	United States of America
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax
WTO	World Trade Organisation

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“Hungary and New Zealand have more in common than might be first apparent. They’re both intensely parochial countries, who think they’re at the centre of the world. They’re both isolated: New Zealand by 1000s of miles of ocean, Hungary by an impenetrable language. Maybe they could find some common ground to work on...”

*Scott Alexander Young
New Zealand Film Producer and Director
Hungary, 2007*

Chapter 1

INTRODUCTION

1.1 Introduction

As Scott Alexander Young’s comment above indicates, at first sight, two geographically and culture-historically distant countries like New Zealand and Hungary might have few connection points or interests in common. At a deeper level, however, Young also reveals the paradoxical nature of at least two features of each country which they have in common: their isolation from the world at the same time as their own self-perception of being at the centre of the world. While New Zealand has had to overcome disadvantages resulting from its geographical distance from the rest of the world, Hungary has had to overcome its linguistic isolation as a country using an Uralic language in a predominantly Indo-European language environment. On the other hand, the sense of being something “unique” in the ever-globalising world seems to have played a significant role in both New Zealand’s and Hungary’s national self-perception.

The recent New Zealand media coverage¹ of the planned 2008 annual Speaker’s Tour to Italy, Germany and three of the new 2004 European Union (EU) Member States Poland,

¹ Reviewed by thesis author: *TVNZ1 ONE NEWS* of 11 March 2008; *TVNZ3 NEWS* of 12 March; *Dominion Post* 12 March 2008; *National Business Review* 11 March 2008; *The New Zealand Herald* 11 and 13 March 2008; *New Zealand Press Association* 12 March 2008; *The Press* (Christchurch) 11 and 12 March 2008.

Czech Republic, and Hungary revealed however, that questioning the rationale behind possible connections between New Zealand and Hungary as well as other countries in Eastern Europe (as the new 2004 EU Member States are referred to by the New Zealand media in general), is not just a rhetorical one.

The tone and message of the *TVNZ ONE NEWS* report about the Speaker's Tour was taken over by most newspapers, labelling the trip of the five Members of Parliament (MP) in their headings as a "Costly Tour; Junket; Junket Jaunt; MP's Jolly Jaunt; MP's 'last hurrah' at taxpayers' cost; MPs Tour; Perk Trip; Retiring MP's Europe Trip; and, Travel Bandwagon", just to list a few journalistic examples. No article was found with a positive or neutral heading. Beside the negative labelling of the tour the core themes within the articles were financial and/or personal - "taxpayer funded trip; taxpayers' money; taxpayer's expense; costs; and retiring MPs". While TVNZ estimated the costs to be NZ\$12,500 per person, other newspapers made such precise calculations as NZ\$9,842 per person.

Much criticism was exercised on the chosen tour participants as well. The main criticism concerning the "pointlessness" of the journey was based on the fact that four of the five MPs – Speaker Margaret Wilson, National MPs Brian Connel and Katherine Rich, Labour MP Marian Hobbs - intended to retire from politics at the end of the parliamentary term. Only New Zealand First MP Peter Brown has not announced his retirement (although of course his re-election in 2008 was not assured). The media argued twofold: some journalists found that the 6 months following the trip, during which the MPs would still be active Members of the Parliament, were insufficient for passing on the experiences made overseas. Others stated "Sure, the delegation will produce a report some months after they

return, a report which no one will bother reading.” (Amstrong, John, *The New Zealand Herald*, 13 March 2008).

The most quoted statement of Minister President Helen Clark that “[T]he issue is it’s not about benefit for MPs, it’s about benefit for New Zealand.” (11th March 2008) was widely evaluated negatively by the press. Most journalists expected to see a precise quantifiable personal benefit for the participating MPs and for taxpayers resulting from the tour. An article in *The New Zealand Herald* on the 11 March 2008 argued that it was not enough if such foreign political trips gave “benefits (...) just to the country” and suggested the necessity of equal value of national and personal interests when undertaking similar trips. This expectation is contrary to the expectations of most democratic countries from their MPs where personal interests and benefits should clearly take second place to national interests.

Further criticism was expressed on the destination and itinerary of the tour. The cartoon published in *The New Zealand Herald* on the 13 March 2008 (Figure 1.1) illustrates well the opinion of the New Zealand media on the presumed pointlessness of the Speaker’s Trip for New Zealand in general.

Locating these seemingly remote EU cities within a map of New Zealand conveys the message that the trip is considered to be as much value as undertaking it within the country – taking the notion of parochialism to new heights! According to the cartoon, however, even Frankfurt (Germany) fits into the geographic category of Eastern Europe, while the absence of Milan (Italy) may indicate the city was either regarded as part of Western Europe or perhaps inconveniently inconsistent with the perception being presented. Beside including Frankfurt as an Eastern European city the cartoonist considered it not important to position these cities in relation to each other geographically more correctly (Budapest

should be exchanged with Várpalota and Prague with Warsaw). This illustration revealingly symbolises the importance the media typically assign to the EU and especially to the new EU Member States.

Figure 1.1: Annual Speaker's Tour *The New Zealand Herald* 13 March 2008



Cartoon appears courtesy of Rod Emmerson and The NZ Herald
<http://www.nzherald.co.nz/index.cfm%3Fcid%3D280%26objectid%3D10497575%26ref%3Drss+Cartoon+annual+speaker%27s+tour&hl=en&ct=clnk&cd=2&gl=nz>

A content analysis of the media reports is particularly revealing: none of the news articles mentioned the European Union (EU), or that the countries to be visited are Member States of it. Concerning the itinerary of the tour *NZTV ONE NEWS* failed to ask the question why these particular countries might be of interest for New Zealand. Following this lead most newspapers described the cities simply as tourist destinations and emphasised the expensive hotels and restaurants that existed: “For many New Zealanders, it would be the trip of a lifetime. They would scrimp and save to pay for a visit to the historic cities of Warsaw, Krakow, Prague and Budapest.” (*The Press (Christchurch)*, 12 March 2008). The only journalist providing the reader with a list of the tentative meetings was Claire Trevett

(12 March 2008, *The New Zealand Herald*) placing the list after her article, without any adjoining commentary. Other journalists found just the former concentration camp of Auschwitz worth mentioning, but labelling it as a “mystery” how it would contribute to “the interaction of New Zealand's Parliament (...) with other legislatures.” (*The Press (Christchurch)*, 12 March 2008).

The justification and purpose of the trip given by Prime Minister Helen Clark and some of the MPs invited for the tour most commonly cited: “diplomatic outreach”; “benefit for New Zealand”; “interaction with other parliaments”; “establish reciprocal relations”; and to “boost economic ties”. However, these reasons were widely regarded by the media to be a smoke-screen and without substance as the headline “Junket is just a glorified golden handshake” illustrates. (*The New Zealand Herald*, 11 March 2008)

And what sort of trade are we talking about? Will they be taking out their suitcases full of sheepskins and woolly jerseys and bartering for Polish sausage, Hungarian gherkins and Czech beer? (Martin Van Beynen, *The Press (Christchurch)*, 15 March 2008)

While the public was urged to express opinion on the issue by all media and over 90% of the comments reviewed by the thesis author on the home pages of the media examined regarded the Speaker’s Tour as useless, there were some other opinions as well:

How can I comment intelligently when I don’t know the reason for their trip? (reader’s comment after the TVNZ report; <http://tvnz.co.nz/view/page/411368/1630197>)

I think people should understand that if we want to be a part of global finance and politics, then they won't come to us. We have to go to them. We are a remote country geographically so international travel is inevitable. I as a tax payer have no issue with this. Let New Zealand learn and grow. (Grey Lynn Dan, http://blogs.nzherald.co.nz/blog/your-views/2008/3/11/your-views-labour-and-national-defend-retiring-mps-europe-trip/?c_id=1501154&commentpage=2)

The debate also attracted a comment from Switzerland, possibly from an expatriate New Zealander:

Absolutely important. New Zealand is way beneath the radar screen in most European countries. New Zealand expects that England will look after its interests because of "tradition". This will not happen, as England is not the slightest bit interested in New Zealand, which is now seen as an irrelevance. European countries do like New Zealand, but need to be reminded. New Zealand's MPs would be much better advised to get off their backs and visit Europe instead of basking in the sunshine in New Zealand. (Schwann; Switzerland,
http://blogs.nzherald.co.nz/blog/your-views/2008/3/11/your-views-labour-and-national-defend-retiring-mps-europe-trip/?c_id=1501154&commentpage=2)

While the media was ingenious in providing criticism of the Speaker's Tour, it failed to provide any alternative scenarios. As the Cartoon (Figure 1.1) suggest, the Speaker's Tour should either be cancelled, or just those MPs who intended to participate in the next election (assuming that they would be re-elected) should travel. A particularly New Zealand puritanical streak was also given prominence:

...their hosts will be rolling out the red carpet at each of their stops. The hosts will do this, not so much because they wish to display the generosity of their culture to strangers, but because they will expect reciprocity when they themselves go on their own taxpayer-funded junket to New Zealand. (Martin Van Beynen, *The Press* (Christchurch), 15 March 2008)

These simplistic and populist media responses suggest that the media clearly failed to think over the diplomatic consequences of its suggestions. Was the Speaker – who was also to retire – not expected to undertake this reciprocal exchange? Were New Zealand parliamentarians to fly in economy class; stay at budget apartments (providing the same for reciprocal diplomatic visitor in New Zealand)? Should any invitations to attend events or historical / cultural places of the hosts be refused (and not show them anything in New Zealand in return); and rather just expend all their efforts at the negotiation table returning home with signed business contracts including special allowances for New Zealand exports into the EU? Showing interest and respect towards the culture and special historical places of host countries is inevitable in order to achieve and expect positive results when interacting with other governments, yet this seeming normal conduct of international relations was questioned by the New Zealand media.

However, it was not just the media that was at fault. In the interviews with representatives of the Parliament and Government also failed to make any reference to the EU as an especially important diplomatic and trading partner of New Zealand. They missed the opportunity to inform the public, that not only were the old Member States divided over export allowances for New Zealand's products, some of the new EU Member States were even more hostile to allowing additional competitors into their developing economies and fragile markets. Given the existing level of bilateral relations between New Zealand and the 12 new EU Member States is extremely modest anyway, for the media to reduce this relevance to effectively zero runs the serious risk of long-term negative consequences.

In light of this apparent controversy amongst media, Government and public opinion the goal of this thesis is to provide an academic exploration from New Zealand's perspective whether any potential connection points or areas of common interest may exist with Hungary which might foster, directly or indirectly, New Zealand's national interests in the EU. In that sense the thesis may be able to demonstrate to a dubious New Zealand media and public that such diplomatic initiatives are not pointless exercises but an essential ingredient in fostering economic relations that are in New Zealand's wider long-term interests.

This chapter firstly provides a general understanding of the problem setting prior to providing an overview of the most important empirical literature which discusses what is known about the problem, highlights the gaps in existing knowledge that must be addressed, and underpins the need for the project's research. Third, the research objectives and specific research questions are defined, while the theory section provides insight into the theoretical framework of the research, and highlights the strengths and weaknesses of

the theories that are applied. The methodology section of this chapter summarises the various research methods employed in the study to answer the research questions and finally, the limitations of the thesis are discussed and a short synopsis of the thesis chapters is provided.

1.2 Problem Setting

The enlargement of the EU to include 10 new Member States on 1st May 2004, followed by Romania's and Bulgaria's accession in 2007, and coupled with the apparent intent to establish a Europe based on geopolitical boundaries and common values is a challenge with far reaching consequences not just for the EU and its candidates, but also for third countries.

New Zealand's relatively small size, its geographical distance from, and a strong economic reliance on the EU as an agricultural export market arguably makes the country especially sensitive to such changes in the international arena. While New Zealand's foreign policy towards the 'old' EU of 15 countries paid significant attention to the EU in line with its political and economic importance, New Zealand's engagement in the Member States who have joined since 2004 is marginal. The New Zealand Ministry of Foreign Affairs and Trade (2004) described the inattention thus:

...the EU is one of New Zealand's most significant political and economic partners. (...) In contrast to the importance of our relationship with the EU, New Zealand's engagement in Central and Eastern Europe is minimal. (pp. 2-4)

Yet neglecting to develop strong connections with these new Member States may undermine New Zealand's relatively good visibility in the 'old EU'.

[The] new Member States will have little immediate interest in New Zealand's situation or any sense of obligation or reciprocal interest with us (...). EU decisions will have more wide-ranging impact (...) and decisions once made, will be harder to reverse. (Ibid: p. 6)

If up to 12 EU Member States have little information on or understanding about New Zealand's interests in their region, then this Pacific nation might face difficulties when the new EU members are required to vote on matters like trade restrictions and exemptions' which may concern New Zealand. Taking into consideration New Zealand's dependence on agricultural exports its vulnerability in the long term should not be underestimated.

By opening itself up towards the new Member States, New Zealand may secure greater diplomatic alliances in areas of key international interest, and new market opportunities for its products. The New Zealand Ministry of Foreign Affairs and Trade appears to have regarded the opening of the embassy in Poland in 2004 as a solution to the problem of New Zealand's low visibility in the region, rather than a first important step in this direction.²

Interviews conducted in this study with New Zealand's ex-diplomats, trade representatives, and expatriates in Europe between 2005 and 2007 revealed, however, that the present cross-accreditation of countries to different New Zealand embassies in Europe and their low staffing levels could not secure higher visibility for New Zealand in the new EU Member States. Similarly, the present system and task allocation of Honorary Consulates has failed up until now to significantly contribute to the strengthening of New Zealand's visibility in Central and Eastern Europe.

1.3 Empirical Literature

The research of existing literature in this study was not solely limited to that which addresses the various relationships between New Zealand and Hungary, but it also

² According to Simon Murdoch, Chief Executive of the Ministry of Foreign Affairs and Trade New Zealand will maintain or strengthen its foreign posts in Brussels, London, Berlin, Paris, and Milan but beside the embassy in Warsaw no further embassies or representation are planned in Central and Eastern Europe. Source: Answer of Simon Murdoch to a question concerning New Zealand's representation in the EU at the seminar "EU-NZ: Facing Global Challenges Together", hosted by NCRE, University of Canterbury on the 27th November 2007

encompassed literature on the development of relationships between New Zealand and the EU and between Hungary and the EU. The following sections present the most important literature that underlines the importance of this research from a New Zealand perspective as well as highlights the gaps in the literature that this thesis addresses.

Research on the development of relations between New Zealand and the EU from the 1970s to the 1990s tended to be a largely one-sided focus on economic dimensions of the relationship with special attention paid to the effects of the Common Agricultural Policy (CAP) on New Zealand's agricultural exports. (e.g. Jackson and Keith 1971; Talboys 1981; Duchene *et al.* 1985; Kennaway 1989; March and Green 1991; Gardner 1996; Saunders 1998).

Holmes and Pearson's study, "Meeting the European Challenge – Trends, prospects and policies" (1991) was one of the first New Zealand attempts to analyse relations between New Zealand and the EU (at that time the European Community, EC) beyond solely agricultural and trade dimensions. The authors urged New Zealand policy-makers to pay greater attention to the EU's roles in international organisations and in areas such as science, technology, environment, energy, aviation, security, and terrorism (see more details in Chapter 2: Literature Review).

Petrovic and Barrel's paper (2003) can be regarded as a counterbalance to the previous solely economic focused research and is more in line with the suggestions of Holmes and Pearson (1991). The authors stressed the importance of people-to-people relations (such as tourism, culture, education) between New Zealand and the EU and urged policy-makers to

think in terms of “...non-agricultural trade ties between New Zealand and the new EU members from Eastern Europe.” (2003, p. 1)

Following the recommendations of recent investigations on the impact of the EU enlargement on New Zealand (Petrovic and Barrer 2003; McMillen 2003; Patten 2003; O’Sullivan 2003; Gibbons 2004, Benson-Rea and Mikic 2005) New Zealand appears to need to re-evaluate its diplomatic and foreign trade policy, especially with the new EU Member States, and strengthen its engagement in these countries to make the most of possible opportunities. Thus to ensure that positive outcomes are generated, and to create a platform for common projects, it is imperative that bilateral analyses of interests and possibilities between New Zealand and each new EU Member State are conducted. Despite these academic conclusions and recommendations, with the exception of some studies concentrating on the potential effects of Hungary’s and Poland’s EU accession on New Zealand’s agricultural industry (Ministry of Foreign Affairs and Trade 2001; Saunders 2003; Ockelford 2004), no in-depth country-specific analyses exist on any of the new EU Member States by New Zealand scholars.

A range of reasons for this lack of scholarly attention might apply: first, having little information available on these countries in New Zealand contributes to the lack of informed academic interest. Conducting such research would inevitably have an explorative character, which would necessarily require travel to these countries, a costly and time-consuming process for researchers. On the other hand, scholars who are interested in undertaking field research in a country without speaking the language of its inhabitants would have access to a limited pool of information that was only written in English or from people who speak English. This would certainly limit the reliability and

value of such data. While using an interpreter may be a possibility, this would not only add to the research costs in general, but might also hinder the ability of the researcher to establish the necessary trust and rapport with their research participants in order to obtain important and perhaps more ‘sensitive’ data.

In the context of the significance of the new EU Member States for New Zealand and the corresponding lack of existing research, this thesis investigates the possibilities of closer collaboration between New Zealand and one of the new EU Member States, Hungary, in the areas of diplomacy, trade, science, education and people-to-people relationships (in particular, through tourism and cultural exchange). Due to the author’s Hungarian origin, the challenges associated with conducting research in a foreign language country like Hungary were not applicable. The subsequent section will outline the research objectives and research questions in more detail and justify the selection of Hungary as the focus of the research.

1.4 Objectives and Research Questions

Based on the problem setting as described above the aim of the research is to explore the development of relations in different areas between New Zealand and Hungary in order to identify sectors of common interest and possible connection points between the two countries.

Why was Hungary selected from the other nine new 2004 Member States? Do New Zealand and Hungary share any common interest? Have there ever been any special connections between them? It is the aim of the thesis to investigate the latter two questions,

however before this is done it is pertinent to elaborate on the selection of Hungary as a case study. A range of factors led to this decision.

Firstly, the unique geopolitical location of Hungary, in which it is situated between ‘East’ and ‘West’, and with its historical experiences of being on both ‘sides’ of Europe was considered to make it a particularly interesting case. During its long history, Hungary has been both the Eastern border of the Habsburg Empire as well as the Western border of the Ottoman Empire. During its most recent 100 years of existence, Hungary in turn became the Eastern border of the Austro-Hungarian monarchy and the Eastern border of Hitler’s Germany, as well as one of the Western borders of the Soviet satellite states. Its current boundaries make the country one of the EU’s Eastern borders of (See Chapter 5 for further discussion).

Its location and the country’s proven ability to serve as a logistical centre or platform for further diplomatic and trade connections with its seven neighbouring countries and with the wider South-Eastern Europe (discussed in Chapter 5 in greater detail) was another factor which prompted the selection of Hungary in this study. The ability for New Zealand to use Hungary as a gateway to the rest of South-Eastern Europe was also considered to be a beneficial opportunity.

Additionally, although they are geographically distant, Hungary and New Zealand share some socio-economic similarities. For example, both countries rely heavily on trade ties with the EU. Tourism is considered one of the main export industries in both New Zealand and Hungary and although Hungary’s economy can no longer be characterised as agriculture-dependent, similar to New Zealand, agriculture still has a special position in the

country's economy. Further socio-economic similarities are the economic dependence each country has on small- and middle-sized enterprises, the emphasis placed in each economy of seeking alternative energy resources, and the special position of ethnicity within society. The importance of raising the educational level of Maori people in New Zealand, as well as integrating them more thoroughly into society has some close parallels to Hungary's efforts at raising the educational level and societal status of its Roma citizens.

An important consideration in the selection of Hungary as a country-study was the researcher's personal familiarity with Hungarian history, customs and values, and the lack of language difficulties when sourcing data. The latter point turned out to be particularly important because familiarity with the Hungarian language meant that the challenges which English-speaking researchers might encounter did not arise. Because the lack of academic literature on the development of relations between New Zealand and Hungary meant that the nature of the research would be implicitly explorative, and would involve seeking existing related literature as well as identifying research participants in both countries, a native knowledge of Hungarian was essential. Gaining immediate access to material written in Hungarian enabled the research to include important historical and contemporary data on economic, societal, and political developments that are not available in English. Conducting interviews with Hungarians living in New Zealand and New Zealanders living in Hungary was greatly enhanced by a familiarity with the socio-cultural backgrounds and value systems of both countries. As the goal of conducting interviews is to receive 'deep' insights into often sensitive issues, the necessary openness and trust was unlikely to have been achieved using a third person as a translator.

While the importance of being acquainted with a particular language and culture is seen as fundamental for conducting linguistic or sociological research, for example, the advantages of multi-ethnicity and multi-lingual perspectives are still under-utilised in political and economic studies in New Zealand.³

Research Questions

Identifying possibilities for New Zealand in different areas in Hungary is not possible without first gathering insight into both New Zealand's and Hungary's interests as small states in the international arena, especially in relation to the EU. Diplomats and businessmen along with academics from New Zealand and from Hungary acknowledge the special importance the EU plays in the development of foreign policy and trade in their countries. Thus before looking at the relationship between New Zealand and Hungary in greater detail a closer analysis of both countries' relations to and interests in the EU was considered to be important.

In terms of the connections, common interests and future opportunities between New Zealand and Hungary the first question investigated by this thesis was whether there is an existing basic platform between the two countries which may be built on. This was followed by an investigation into how Hungary's EU accession influenced the development of relations between New Zealand and Hungary. Are economic and diplomatic ties now more intense or on the contrary, do connections seem to be diminishing? In both options but particularly in the case of the latter, are there any areas

³ The author bases this statement on her own search for foreign country specific theses via the search engines of the libraries at the University of Canterbury, University of Auckland, University of Massey, and Victoria University of Wellington in September 2007. In contrast to this, the European Studies programme at the National Centre for Research on Europe (NCRE), University of Canterbury, is highly interdisciplinary, and provides an exceptional environment in terms of the professional and financial support that it offers its students. This support enables students from many different nationalities with a range of linguistic skills to conduct field research in their own special countries of interest, which would not be possible without assistance.

where New Zealand could cost-effectively raise its profile and visibility in Hungary and in the wider region to counteract the danger of being marginalised by the new EU Member States? These thoughts ultimately led to the development of the final research questions:

1. How have relations between New Zealand and the EU developed until recently?
2. How have relations between Hungary and the EU developed until recently?
3. What are the main features of Hungary's political and economic position and interests within and outside of the EU?
4. How did relations between New Zealand and Hungary develop prior to 1st May 2004?
5. How have relations between New Zealand and Hungary developed after 1st May 2004?
6. What are the areas of potential collaboration between New Zealand and Hungary that are worth considering in the future?

1.5 Theoretical Framework

The similarity between New Zealand and Hungary in terms of population, market size, and dependency on foreign trade in relation to the EU suggested that embedding the research within the framework of Small State Theory would be appropriate. As is discussed in Chapter 2, however, Small State Theory has some limitations, and thus another conceptual framework was also incorporated. To understand the significance of people-to-people relationships in international trade as well as the role of expatriate networks in penetrating a foreign market the Theory on the Role of Ethnic Networks in International Trade provided a useful background for this aspect of the study. The insights provided by this theory were especially useful when evaluating case studies and survey results. The

following sections will highlight the most important aspects of these three theories as applicable to this research.

Small State Theory

The roots of Small State Theory extend back to the study of Baker Fox (1959) who approached the problem of small states after World War II from a security point of view, and to the paper of Kuznets (1960) from an economic perspective. As will be set out in greater detail in Chapter 2, despite the many attempts at defining ‘smallness’, scholars in the field were unable to come to a consensus. When evaluating the relations amongst New Zealand, Hungary, and the EU this study adhered to Geser’s (2001, pp. 89-100) typology:

1. Substantial smallness (small size of resources such as territory and population);
2. Relative smallness (in comparison to another country); and,
3. ‘Subjective’ smallness (perception of oneself or others of being a small country).

According to the literature review it was determined that most Small State theorists are in agreement that the term ‘foreign policy’ includes for most small states the dimensions of security, foreign trade, and participation in the international arena. Many scholars argue, however, that there are a number of determinants beside population, area, Gross Domestic Product (GDP) and military power that influence potential small state behaviour (East 1978; Björkdahl 2002; Park 2005; Sjö 2006, just to name a few). This thesis will also highlight some additional foreign policy shaping factors that traditional Small State Theory has previously neglected (Chapter 2).

Despite its shortcomings, Small State Theory proved to be a useful analytical tool when comparing countries with each other or looking at the development of a single state’s

foreign policy over time. The assessment of the different characteristics of a small state may provide useful predictions about the future course of its actions. Thus in this thesis, Small State Theory was used to identify the similarities and differences in the foreign policy development of New Zealand and Hungary towards the EU and towards each other.

Theory on the Role of Ethnic Networks in International Trade

While the theoretical investigations of this thesis were being undertaken, it became apparent that in contrast to the previously outlined theory which focused on nation-state concerns, an additional theoretical framework which established a more international network context was required. One of the regularly emerging trends both in the study's interviews and in the answers given to questionnaires was the apparent lack of networking and the under-utilisation of the potential use of expatriate New Zealanders in Hungary by New Zealand. To understand why research participants regarded networking as important and what advantages may result from a stronger connection of expatriates with their country of origin it was necessary to expand the thesis inquiry.

Today's international market is full of open and hidden trade barriers. According to Eaton and Kortum (2000, p.27) the removal of geographic trade barriers alone would increase world trade fivefold. Saxenian (1999, pp.54-55) notes that, "[the] scarce resource in this new environment is the ability to locate foreign partners quickly and to manage complex business relations across cultural and linguistic boundaries...". Theorising in this discipline is rather informal but there is an excellent base of empirical studies based mainly on international case studies, as will be discussed with examples in Chapter 2. Rauch summarises the core statement of the discipline as follows:

Numerous statistical and case studies provide evidence that transnational business and social networks promote international trade by elevating problems of contract enforcement and providing information about trading opportunities.(...) they improve the allocation of resources by creating trade, and they generate surplus from cooperation for their members. (2001, p.1200)

Transnational networks, on the other hand, may have also adverse effects for international trade: if they become too exclusive, they may limit the output and might emerge rather as a trade barrier for non-members. The application and limitations of this theory are set out in more detail in Chapter 2.

1.6 Methodology and Limitations

In line with the explorative nature and interdisciplinary character of the research (e.g. economics, international and domestic policy, people-to-people relationships, culture) qualitative research methods were deemed to be more appropriate than strictly quantitative ones during the investigations. On the other hand, political and economic dimensions, results, and achievements must also be measurable. As such, the design of the thesis' methodology followed Layder (1993, pp. 7-8), who combined the two main lines of research in a so-called 'Realistic Approach'. To ensure the validity and reliability of results, the data source and methodological triangulation was applied continuously throughout the research (see Chapter 3).

First, investigations on the background and nature of relationships between New Zealand and the EU, as well Hungary and the EU were undertaken using literature research as well as interviews with the representatives of diplomacy, politics and trade both in New Zealand and in Hungary. Second, information on the political and socio-economic development of Hungary in Central – Eastern Europe, and on the country's European and international interests was gathered through additional literature research and by interviews with representatives of relevant institutions in Hungary. The third, and mainly explorative

component of the research had to be based on primary data received from the experiences, perceptions and intentions of political, economic and other representatives in both New Zealand and Hungary.

Sampling

Accounting for the distance between the two countries, the explorative nature of the research, and the given academic timeframe, the application of purposive sampling appeared to be the most manageable and adaptable to identify potential research participants than representative or random sampling.

Companies, institutions, and individuals in both countries who had at least one of the following features were contacted:

- Joint New Zealander and Hungarian capital;
- Involvement in trade between New Zealand and Hungary;
- Involvement in common projects of any nature between New Zealand and Hungary;
- Former involvement in trade or in common projects of any nature between New Zealand and Hungary; and,
- Intention to promote business or other type of relationship between New Zealand and Hungary within the period 2005-2007.

Source and use of data

Data from research participants was received in three main ways:

1. Questionnaires conducted in New Zealand and in Hungary in 2005 and 2007;
2. Interviews conducted in New Zealand and in Hungary in 2005 and 2007; and,

3. In-depth interviews conducted with the managers and owners of two companies in New Zealand and two in Hungary in 2005 and 2007.

The data received from questionnaires was evaluated in the survey analysis both between the two countries as well as longitudinally within each country. Information from interviews with political, diplomatic, educational decision-makers as well as entrepreneurs from New Zealand and Hungary was applied in the relevant chapters as a contribution to the existing data. In-depth interviews in 2005 and their follow-ups in 2007 provided the data for the development of four case studies.

Data evaluation

The data was evaluated by interpretational analysis (see more on this in Chapter 3). Where possible this data was compared with the relevant published data and statistics at a macro-level to secure the “output of the rigorous and reliable data which could be used in providing evidence-based policy recommendations.”(Enticott 2004, pp. 743-756).

Delimitations

The data collected and evaluated was used primarily to answer the main research question concerning the opportunities and rationale for developing deeper and broader relationships between New Zealand and Hungary, and so identify areas for further investigation.

Although the data from questionnaires was displayed and evaluated numerically, it is important to emphasise that the results are indicative and based on the opinion of a limited number of research participants and are therefore not representative of a nation-wide public opinion survey. Instead, the participants represented the key stakeholders in the relationship

between New Zealand and Hungary; those persons who are arguably most interested and experienced in dealing between the two countries, and as such, the results are considered highly valid for a policy-driven investigation.

Finally, the conclusions derived from the research should not be interpreted in a way that would suggest favouring of the development of New Zealand's relations with Hungary in comparison to other EU Member States. Further similar country specific studies are needed to deliver data for such an evaluation.

1.7 Chapters Overview

After discussion of relevant literature and theories in Chapter 2 and the methodological explanation in Chapter 3, the findings of the research are presented following the sequence of the research questions outlined above. Although the research questions on New Zealand – EU relations and Hungary - EU relations are similar, the length of their discussion is different: just one chapter was devoted to analysing New Zealand-EU relations with two chapters on the relationship between Hungary and the EU. The reason for this lies in the different function of these topics for the thesis. According to the literature review, there is significantly more academic literature available in New Zealand about New Zealand–EU relations than about Hungary–EU relations. As one of the main goals of the thesis was to provide a better insight into the interests of a new EU Member State, this area required greater space for discussion. Thus Chapter 4 explores the development of relations between New Zealand and the EU and has a more introductory function aimed at familiarizing the reader with the EU's importance for New Zealand in general. This is followed by Chapter 5, which presents the main historical developments Hungary underwent before joining the EU on the 1st May 2004. With this historical background Hungary's present EU policy and interest, which are discussed in Chapter 6, are easier to

understand. While there is a significant amount of literature discussing the EU-New Zealand relationship and that of Hungary with the Union, this was not the case when investigating the development of relations between New Zealand and Hungary. The low level of existing resources on this subject thus made conducting interviews in both countries necessary.

Chapter 7 presents a discussion of the relationship between New Zealand and Hungary from their early beginnings until Hungary's EU accession in 2004. Chapter 8 analyses the present situation across different areas between the two countries, discussed from the macro-level. The macro-level analysis focuses on diplomatic and trade relations based on data from New Zealand and Hungarian statistics and governmental publications. Questionnaires and interviews conducted by the author in 2005 (Chapter 9) and 2007 (Chapter 10) in New Zealand and Hungary provided the data for a micro-level analysis. Despite best intentions to keep proportionality between macro- and micro-level analyses, the latter was more space demanding and stretches over two chapters. The reason for this is that the presentation and discussion of survey results from two years from two countries was more space consuming than the discussion of macro-level data based on official publications. Chapter 11 comprises two business case studies from New Zealand and Hungary. The goal of the case studies was to contribute to a better reflection and understanding of the more general survey results and to serve as control variables for them. The final Chapter 12 makes a comparison between the macro- and micro-level results to present a detailed and holistic picture of the difficulties and opportunities facing the future development of relations between New Zealand and Hungary in a range of areas. The thesis ends with the discussion of the findings in relation to the theory, literature and practice.

1.8 Summary

The goal of this chapter was to contextualise the background of this study, outline its leading research questions and goals, and to provide a brief insight into the theoretical and methodological framework of the research. Broadly, this thesis seeks to explore the opportunities for New Zealand to raise its visibility and ties in different areas of Hungary, which would ultimately support New Zealand in achieving its long-term strategic goals, as set out in the Joint Declaration of 2007, with the European Union. The lack of similar academic research necessitated the explorative character of the research and induced the application of qualitative research methods. Throughout the research where appropriate, however, quantitative methods provided useful complementary control data for the qualitative evidence. While Small State Theory provides the overall theoretical framework for the thesis, its limitations justified an additional reliance on the Theory on the Role of Ethnic Networks in International Trade in certain sections.

Chapter 2

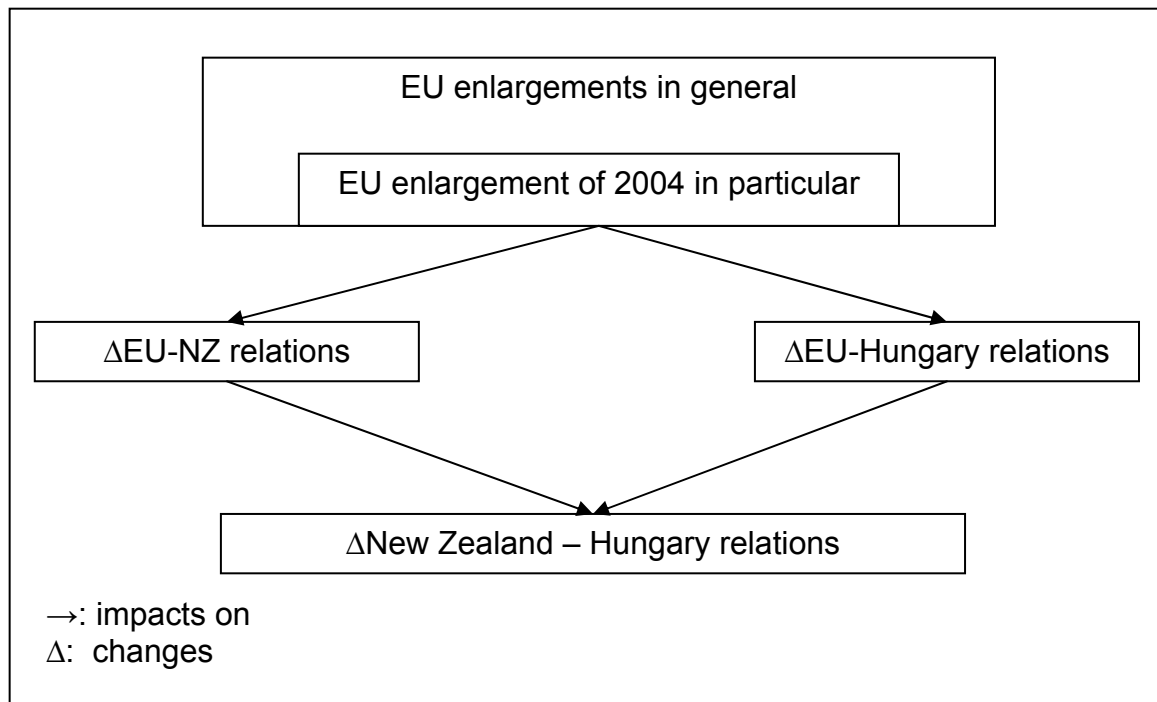
LITERATURE REVIEW AND THEORY

2.1 Introduction

As noted in the previous chapter, the European Division of the New Zealand Ministry of Foreign Affairs and Trade appreciates that there is a discrepancy between the EU's importance for New Zealand and the contrasting lack of visibility of New Zealand in the enlarged EU, especially in the new Member States that have joined since 2004 (2004, p. 2-6). This issue forms the foundation of this thesis' investigations. As an analysis of New Zealand's engagement and visibility in all the new EU Member States is beyond the scope of this research, an investigation of the relationship between New Zealand and Hungary was selected to provide a case study of the broader regional engagement. Figure 2.1 establishes the broader research topic (that of the relationship between New Zealand and Hungary) within the context of past EU enlargements in general and the enlargement of 2004 in particular.

This chapter explores the existing literature and empirical research that is relevant for the context of this thesis, before moving to a discussion of the pertinent theoretical frameworks which are used to explore the problem setting. The final section addresses the novelty, position, and contribution of the thesis to the literature.

Figure 2.1: New Zealand – Hungary Relations in Context of EU Enlargements



2.2 Review of Empirical Literature

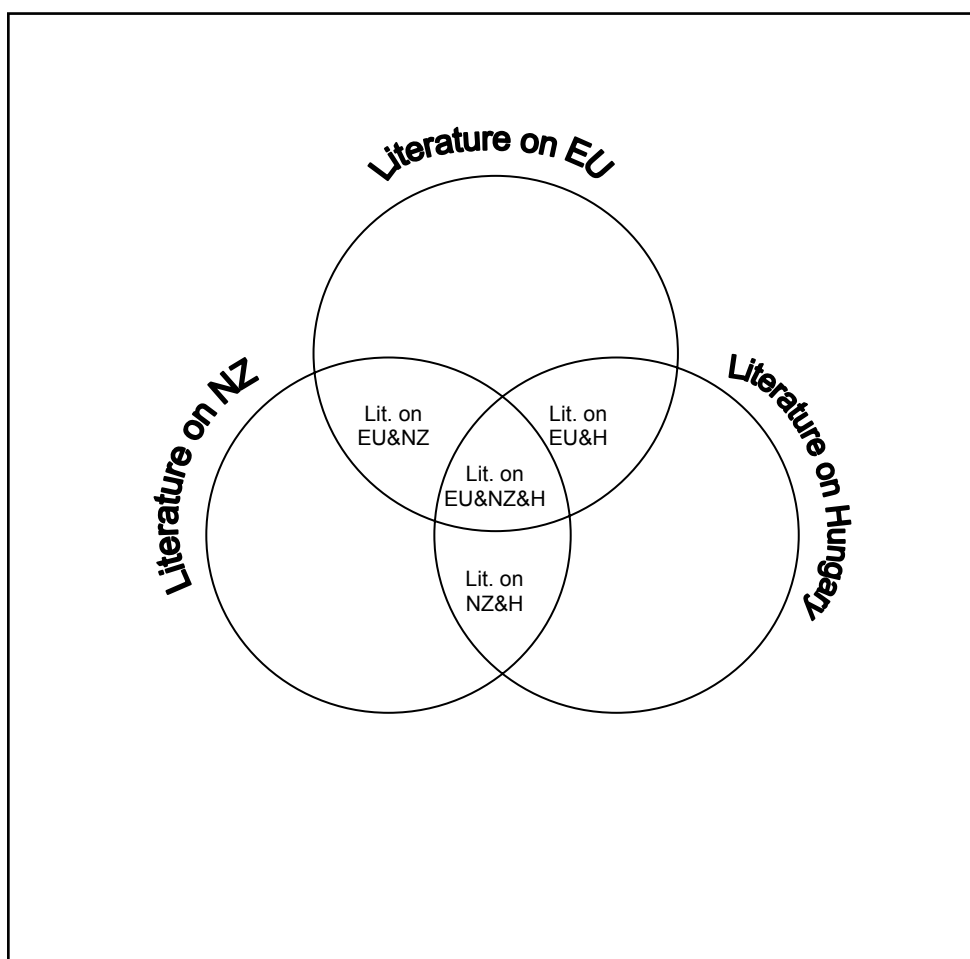
2.2.1. Introduction

While acknowledging the importance and impact of global political and economic developments, the empirical literature research for this study was limited to

1. the effects of past EU enlargements on New Zealand in general;
2. the development of relationships between the EU and New Zealand;
3. the development of relationships between the EU and Hungary; and,
4. the development of relationships between New Zealand and Hungary

(Figure 2.2).

Figure 2.2: Areas of Pursued Literature Research



2.2.2 Literature on Relations between New Zealand and the EU

The scope and availability of academic literature on the relationship between New Zealand and the European Union (EU) was recently investigated by Thornton. (2006, pp.19-24.) The author's investigations revealed the limited research and the largely one-sided focus on the economic dimensions of the relationship. Thornton grouped the existing available literature along four broad themes: British accession to the European Economic Community (EEC), the Common Agricultural Policy (CAP), EU Enlargement, and literature discussing the relationship between New Zealand and the EU from cultural or political point of view. Thornton's recent research overview provided an excellent starting

point for the investigations of this thesis, however his efforts were extended by further research. Based on this extension, a thematic catalogue of the literature between 1970 and 2006 has been developed (Table 2.1 and 2.2).

As can be seen in Table 2.1, the research undertaken on EU-NZ relations from the 1970s onwards sought to define New Zealand's relationship to the EEC (later EC) primarily from an economic point of view, mainly focusing on the effects of the Common Agriculture Policy (CAP) on New Zealand's trade opportunities with the EC (13 publications) and on the risks for New Zealand's meat and dairy exports resulting from the United Kingdom's (UK) EEC accession in 1973 (8 publications). In contrast, the volume of studies investigating the institutional, political, and cultural linkages was significantly lower (2 publications).

The loss of the UK's presence as the bridge to the EC market has ever been considered to be a more significant cornerstone in New Zealand's history than World War I and II (Robson 1972), as it implied a restriction on New Zealand's preferential access to the EC market. The various risks and warnings of this formative event were expressed and evaluated in several publications (Jackson 1971, New Zealand Ministry of Foreign Affairs 1971, Robson 1972, Lodge 1982). As referred to by Gibbons and Holland (2006, p.1) Lodge (1982) "...accurately reflected the concerns of the time, focusing primarily on the dominance of agricultural trade and the absence of a developed political dialogue." In an alternative approach, Talboys (1981) instead evaluated the new circumstances caused by the UK's accession that forced New Zealand to review its foreign policy dependence and one-sided market policy with the UK. Talboys welcomed the independence and urged the Pacific nation towards further market and product diversification.

While the importance of regularly monitoring the EC's CAP policy for New Zealand cannot be denied (see those authors under CAP in Table 2.1), the preponderance of research focusing solely on CAP and trade relations between New Zealand and the EU has also contributed to the narrow view of the EC (and later the EU) as little more than a market that is difficult to penetrate. The manner in which New Zealand's foreign policy was influenced by this perception was recognised by Round (1980) in his rather aptly titled work; "Our foreign policy is trade". Henderson, Jackson and Kennaway (1980), on the other hand, broke with tradition and focused their research on New Zealand's foreign political ties, which among others also included those with the EEC. This theme was continued by Kennaway and Henderson (1991) when the authors focused on New Zealand's foreign policy approach into the 1990s.

Holmes and Pearson's book, though, "Meeting the European Challenge – Trends, Prospects and Policies", (1991) can pride itself as the first comprehensive attempt by New Zealand scholars to analyse relations between New Zealand and the EC beyond solely agricultural and trade dimensions. The authors noted that:

The Community's competence is reaching more and more into areas of importance to New Zealand – not only in international trade, finance and development assistance, and in its widespread links with other regions and international organisations, but also in science and technology, the environment, energy, aviation, security and terrorism. (...) If New Zealand is to avoid being marginalised (...) it must be prepared (...) to put resources into adequate representation in the Community and into well-considered joint action with the EC in areas of priority to its members. (1991, pp.300-301)

As can be seen in the above comment, Holmes and Pearson drew attention to the important but previously neglected issue of New Zealand's under representation in Europe and the disadvantages of this low visibility in the long-term (see Chapter 3 for further details on the development of relationships between New Zealand and the EU). Unique during these decades of research was work by O'Connor and Rogers (1989) who approached the

relationship between New Zealand and Europe from a cultural-historical point of view. The two authors identified “22 places in Europe which, in their various ways, have special links with New Zealand.” (note on front cover) Among these ‘connected’ places are, Lutjegast, the hometown of Abel Tasman in the Netherlands; Bonn, the Rhineland home of Sir Julius Van Haast; Menton with Katherine Mansfield’s Villa “Isola Bella” in France; and the world-famous Kew Gardens in the UK, developed by Sir Joseph Banks, after whom Banks Peninsula was named.

Table 2.1: Literature on New Zealand and the EU (1970-1999)

Literature (chronologically) :	Focus on:					
	EEC via UK	CAP	EU En- largement	Trade/ Business	Foreign/ Security policy	Culture/ Science/ Society
Jackson, Keith: (1971)	+			+		
NZ Ministry of Foreign Affairs (1971)	+			+		
Robson, M. (1972)	+			+		
Fennel (1979)		+		+		
Henderson et.al. (1980)					+	
Round (1980)				+	+	
Pearce (1981)				+	+	
Talboys (1981)	+	+		+		
Buckwell (1982)				+		
Lodge J. (1982)	+	+				
Attwood (1984)				+		
Hill (1984)		+		+		
Duchene / Szczepanik / O'Connor /Rogers (1989)		+		+		+
McMahon, J. (1990)	+	+		+		
Ricketts, R. (1990)	+			+		
Ashton / Rison / Harvey (1991)		+		+		
Kennaway / Henderson (1991)					+	
Holmes / Pearson (1991)	+	+	+	+	+	+
Marsh and Green (1991)		+		+		
Gardner (1996)		+		+		
Wyn, Grant (1997)		+		+		
Saunders (1998)		+		+		

Continuing the literature review in the new millennium it is obvious that in keeping with international political and economic developments of the time, the interest of New Zealand researchers shifted from New Zealand's UK driven EU policy and CAP analysis to other areas (Table 2.2). In line with the economic relevance of the EU for New Zealand, most of the academic literature post-2000 was still devoted to economic and trade analyses; however, the focus changed from a strictly UK or CAP context to include new issues. The EU enlargement of 2004 of ten new Member States, for example, and the possible economic, geo- and foreign political consequences of this were discussed by several authors. Although the working paper of the NZ Institute of Economic Research (2001), McMillan's paper (2003) and work by Ockelford (2004) focused on the analyses of the possible risks and challenges for New Zealand's agricultural trade that might have resulted from the EU expansion, the opportunities for other sectors were seldom, if ever, discussed.

Providing a counterbalance to this over-emphasis on agriculture, and in a similar vein to the analysis of Holmes and Pearson (1991) is the paper of Petrovic and Barrer (2003). The two authors stressed the importance of people-to-people relationships (particularly in areas like tourism, culture, education) and enhanced consideration to "...non-agricultural trade ties between New Zealand and the new EU members from Eastern Europe." (2002, p.1) After analysing the current nature of trade, diplomatic and tourism relationships between New Zealand and the new member states as a group, Petrovic and Barrer concluded that a strengthening of the relationship was necessary and the impetus for this should come from New Zealand.

Table 2.2: Literature on New Zealand and the EU (2000-2006)

Literature (in chronology) :	Focus on:					
	EEC via UK	CAP	EU En-largement	Trade/ Business	Foreign/ Security policy	Culture/ Science/ EU Image
Acrill, R. (2000) NZ Institut for Economic Research (2001) Singleton / Robertson (2002)	+	+	+	+		
Chaban / Holland (2003) Gustavson, B. (2003) Knight at al. (2003) McMillan, Stuart (2003) Petrovic and Barrer (2003) Saunders (2003) Saunders / Mayrhofer (2003)	+			+		+
			+	+	+	+
		+		+		
		+		+		
Chaban and Bain (2004) Gibbons, M. (2004) Kaiser / Elvert (2004) Ockelford, R. (2004) Wiessala, G.(2004)			+	+		+
			+	+		
			+	+	+	
				+		
Benson-Rea / Mikic (2005) Chaban / Holland (2005) Chaban / Holland at al. (2005) Gibbons, M. (2005) Holland, M. (2005) Holland, M. (2005) Luciano / Mayes (2005) Saunders (2005) Roberts (2005)			+	+	+	+
		+		+		+
				+		
				+		
Gibbons / Holland (2006) Thornton, R. (2006)				+	+	+
				+	+	+

The prospects for cooperation between New Zealand and the EU in foreign policy spheres (such as security and development aid, for example) were also a much neglected area of

research in earlier decades. Attention was drawn to the importance of this policy area by Holland (2005), Gibbons and Holland (2006), and Thornton (2006), all of whom pointed to the opportunities for New Zealand to play a major role in the EU's Pacific policy.

The last column of Table 2.2 reveals the increased research into the non-traditional areas of bilateral linkages between the EU and New Zealand such as in the realms of science and research (Holland, 2005), culture and education (Petrovic and Barrer 2003, Thornton 2006), perceptions of the EU in New Zealand (Chaban, Holland *et al.* 2003, 2004, 2005) and European perceptions of New Zealand (Knight *et al.* 2003).

The lessons drawn from the research conducted on the nearly forty-year relationship between New Zealand and the EU can be succinctly summarised by the closing recommendations of Benson-Rea and Mikic (2005), who called for "...a national research effort, which can put together the historic, economic, trade, strategic, geo-political, environmental and socio-cultural aspects of the relationship in order to move its continued and successful interaction forward." (2005, p.32)

2.2.3 Literature on Relations between Hungary and the EU

As this thesis is approached from a New Zealand perspective, where both public and academic information on Hungary is virtually non-existent, providing a basic understanding of Hungary's historical development was considered a task that this thesis should address. Thus this literature review of the EU–Hungary relationship focuses on Hungary's position in Europe, on the political and economic transition period after communism, and on the development of relations between Hungary and the EU until

Hungary's EU accession. Publications addressing these areas are firstly discussed, followed by a review of the research conducted on Hungary's contemporary EU policy.

Although most of the reviewed literature from the 1980s and 1990s was available in Hungarian only, thanks to the greater possibilities for publication in the last decade, an increasing volume of Hungarian academic research is now appearing in English. The significance of this linguistic peculiarity lies in the fact that while the mainstream American and Western European research and media publications approached developments in Hungary from a solely economic point of view based on the international availability of statistics and measures, the more qualitative data describing the political and social developments from the 1970s to the 1990s were mostly only available in Hungarian. Because of this, important aspects of the transition period were often either ignored or misjudged in the West, sometimes leading to inaccurate interpretations of the very real needs and capabilities of Hungary (see more under Chapter 5). To help bridge this gap, and avoid further misinterpretations, the following literature review is based mostly on literature conducted by Hungarian rather than by non-Hungarian researchers. This however does not mean that studies on Hungary conducted by foreign researchers were not considered; those that were available for use in New Zealand have also been included in the relevant sections of this chapter.

Background Literature on Hungarian History and the Transition Period

In investigating the history of Hungary, a good introductory analysis is provided by Hanák (1986) whose work presented a review of the most important political and sociological developments over the thousand years of Hungarian history. In contrast, Horváth's (1992)

political review concentrated specifically on the period from 1944 until the beginning of the 1990s as did Izsák's (1998) "From system change to system change".

The fall of communism in Hungary prompted extensive research which analysed the causes of this collapse, as well as the transformation of the old regime in Hungary and the way that this transformation took place: These events were described by many as a "Negotiated Revolution" (Bruszt, 1990). In 1988 Körössényi was already discussing the revived political divisions within the ruling Communist Party and had begun to analyse the possibilities of potential new wings and parties. Publications edited by Bihari (1992) and Bozóki (1999-2000) also analysed the transition period from the perspective of party politics. While Varga's (1991) article about the political turning point in Hungary was set in a more historical context, Krén (1994) instead approached the Hungarian system change from the perspective of society and analysed the background of the emerging new parties from a historical and to some extent sociological point of view.

The transition period in Hungary entailed not just the emergence of new political parties and new economic regulations but it also brought into question the value system of Hungarian society. Sociological studies in the literature are well represented and have a very strong position in Hungary. In the context of the transition period in Hungary much research of this nature was undertaken and among the most relevant of these are Hankiss (1990) and Buda (1995). Hankiss investigated the change of the value system in Hungary and characterised the 1970-80's as a period in which Hungary was caught between "two worlds" (1990, pp.167-184). Buda's research continued into the mid-1990's analysing the psychological reactions of the society to this period of dramatic social upheaval. Similarly significant was the study conducted by Ágh and Kurtán (1995) which analysed the effects

of the transition period on the public sentiment in Hungary, which turned from “euphoria to political tiredness”(1995, p. 896) after facing the economic and social difficulties of the new system (see more details under Chapter 5).

The publications mentioned above discuss the developments in Hungary mostly from an internal point of view and less in connection with the wider European continent. The publication of Nagy (1993) differed by bridging the relationship between Hungary and the EU and instead looked at Hungary’s history in the context of Europe more generally. In addition to these largely political and sociological perspectives, the transition period was also discussed by scholars in light of the economic and diplomatic impacts. Richter (1992) provided a comprehensive analyses of the development of the Hungarian trade patterns from the early 1960s until 1992 and set these developments in context of the prevailing political environment, to the ‘rules of the game’ (referring specifically to the necessity of special approvals from the Ministry for Foreign Affairs when trading with the West), to the economic organisations participating in trade and the geographic breakdown of foreign trade. The questions of democracy and a market economy were analysed by Glatz in 1995 in relation to Hungary’s future European ambitions.

A comprehensive review of Hungary’s developments in the area of international diplomacy during the transition was published by ex-Hungarian Foreign Minister and later Prime Minister Gyula Horn (1989) with the title “Boundaries and Responsibility: International relations of Hungary’s four decades”. A more recent analysis of the development of relations between Hungary and the EU from a Hungarian point of view was undertaken by Bogár (2006) who focussed on the post-World War II period. Bogár contended that international political and economic powers and interest were the most

important influencing factors in reshaping Europe during the post-war period, and the author's research revealed details of the Hungarian transition period that were previously unpublished and which investigated the process from global, European, society developmental and social point of views including the future prospects for the EU.

Literature on Hungary in EU context

Following Bogár's focus, this discussion now shifts to a more detailed analysis of the development of relations between Hungary and the EU during the 1990s. Substantial research was undertaken from 1990 onwards to analyse the consequences and future possibilities for Hungary which would result from either remaining outside of the EU or from membership. The focus of these publications can be clustered into seven key groupings:

- The future of the EU;
- Foreign and security policy (incorporating also EU enlargement and the question of minorities);
- Economy and trade;
- Industry, agriculture and development policy;
- Sociology, culture and education;
- Institutional and juridical development; and,
- Environmental protection (including animal protection).

Table 2.3, which outlines the literature according to these areas, is based on the most comprehensive Hungary-EU integration bibliography available, developed by the College of International Management and Business Studies at the Budapest Business School (Budapesti Gazdasági Főiskola). The bibliography divides EU related research into 42

main research topics. Each topic includes books, working papers and academic articles from the mid 1990s until April 2004. (Literature after April 2004 was identified using the search engine of the Hungarian Electronic Library and that of the National Széchenyi Library and is discussed in a separate section).

As can be seen in Table 2.3, the most frequently covered research areas during the period of 1990 to 2004 have been questions concerning trade and economic conditions followed by industry, agriculture and development policies. Similarly important issues have been the various institutional and juridical changes in Hungary, as well as questions of foreign policy and the country's sociological aspects. If we compare Table 2.3 with Table 2.1 which featured literature on New Zealand's relations with the EU, we can see a similarity in that both cases feature studies of trade and economic relations most frequently. While the second most covered topic by New Zealand researchers investigating NZ-EU relations was the question of the CAP reform, for Hungarian researchers CAP was frequently linked with questions concerning other industrial areas and different development policies. The following review is a selection of the most important literature which provides a backdrop for the discussions of Chapter 5, focusing particularly on the political and economic development of relations between the EU and Hungary prior to Hungary's accession in 2004.

Among the most important multidisciplinary publications of the early transition period are those published by Izikné and Palánkai in 1993 under the title "The European Community and Hungary in the mid 1990s", followed two years later by the "Europazsebkönyv" (Europe Pocket Book) and the publication of Balázs' (1995) "Magyarország és az Európai

Unió” (Hungary and the European Union) discussing the development of diplomatic and other official, especially trade related regulations between Hungary and the EU.

Table 2.3: Key Research on Hungary’s EU Integration (1990-April 2004)

Research areas	Main research topics
EU	<ul style="list-style-type: none"> - EU Convention, EU Constitution, Political Union and the future of the EU - The EU and the developing world - Institutional changes in the EU after the enlargement - Integrations efforts in Latin America and the EU
Foreign and security policy, EU accession	<ul style="list-style-type: none"> - Co-operation across borders and the EU accession - Foreign and security policy co-operation with the EU - Hungary’s EU accession: a comprehensive advantage-disadvantage scale - Hungary’s EU accession strategy and the EU’s enlargement strategy - Nationalities in the EU and in Hungary, minority policy - Present and future duties resulting from the Schengen Treaty
Economy and Trade	<ul style="list-style-type: none"> - Economic and trade relations between CEFTA countries and the EU - The single European market and Hungary - The EMU and Hungary: questions on the Maastricht criterions and Euro introduction - Economic connections between the EU and CIS states, esp. Russia - EU trade policy: protectionism or liberalisation - Public purchase in the EU and Hungary - The Hungarian pensions system and the EU - How might the sectoral and regional structure of the Hungarian foreign trade change after the EU accession? - What challenges, tasks will face Hungarian companies and enterprises after the EU accession? - Monetary sector and monetary services in the EU and Hungary
Industry, agriculture, and development policy	<ul style="list-style-type: none"> - Present traffic situation in the EU: what can Hungary expect after its accession? - The EU and tenders - Infrastructure and services in the EU and Hungary - Industry and energy policy in the EU and Hungary - What can provide the EU accession for the Hungarian agriculture? - PHARE, SAPARD and ISPA - Hungarian Tourism after the EU accession: opportunities and tasks - Research and development in the EU and in Hungary
Sociology, culture and education	<ul style="list-style-type: none"> - The EU’s educational policy and the Hungarian convergence - Culture, media and information systems in the EU and in Hungary - How prepared is the Hungarian society to join the single Europe? - Labour market issues in context of the EU’s enlargement to the East - The Social Charta and Hungary
Institutional and juridical changes	<ul style="list-style-type: none"> - Domestic political and juridical co-operation with the EU - Results and further tasks in the are of law harmonisation - Consumer protection in the EU and the Hungarian reality - Self-government policy in the EU and in Hungary - Europe of regions: regional policy in the EU and in Hungary, Hungarian concepts - Patent policy in the EU and in Hungary - Competition law and competition policy
Environmental protection	<ul style="list-style-type: none"> - Animal protection in the EU and Hungary - Environmental protection and management in the EU and Hungary

Source: Electronic Library at Budapesti Gazdasági Főiskola, elib.kkf.hu/biblio_2004.html

The constraints on the development of relations between Hungary and the EU during the 1990's were analysed by Dauderstädt (1994 and 1995), Eörsi (1995), and Schönherr (1995), among others. While Dauderstädt criticised the EU's hesitation to put the discussion of eventual EU enlargement for the transitional economies on the agenda, Eörsi and Schönherr instead analysed the restraint of free mobility created by the Schengen Treaty of 1994 for these countries.

Hungary's possible EU accession has also been widely investigated, by both academics and politicians. Hargita (1993), for example, analysed the Treaty of Association between Hungary and the EU, while Abos (1995) instead focused primarily on the PHARE programme's advantages and shortcomings for the transitional nation. While Izikné (1994) reviewed the EU as political, juridical, economic and cultural entity in order to answer the question: "What kind of Europe is Hungary to enter?", Szent-Iványi (1995) and Kádár approached Hungary's possible EU accession from the perspective of the EU, focusing their efforts on answering the "Question marks and conditions of an EU enlargement". Bruszt (2002) devoted his analysis to the discrepancies and driving forces behind Eastern enlargement, stating that new market opportunities had been one of the main motivational factors for enlarging the EU (see also Segell (2000) and Sjursen (2002)). Inotai concluded in his analysis that the EU in general reduced the complexities of potential candidate countries to the simplified categories of either well or ill functioning markets, and the author argued that little effort was made by the Union to explore and understand the other potentials or problems of the candidate countries.

Beside the analyses of possible economic factors, the question of minorities and that of CAP also attracted much political and academic attention in Hungary. The question of

minority rights is an important policy-shaping factor in Hungary due to consequences of the two World Wars, as will be discussed in greater detail in Chapters 5 and 6, and the development of nationality policies also requires conformity with relevant EU legislation. Thus, this question was especially important to Hungary, as EU legislation prior to enlargement in fact offered minorities fewer rights than did the existing Hungarian Minority Law. Hungary's goal in this regard then, was to avoid the necessity of "cut backs" after enlargement and to ultimately raise the standard of the EU's minority policy requirements. In 1995 Glatz approached the question of minorities in relation to the EU in "Hungary, the EU and the Question of Minorities". That the question and legislation around minority rights remained controversial and disguised many unsolved problems was highlighted by the analysis of Deets (2006): "Fifteen years after the fall, while European minority norms are elaborated in much greater detail than ever before, consensus across Europe on the core issues seems no nearer." (2006, p. 419) (See also Deets (2002) and more detail under Chapters 5 and 6.)

Research addressing the EU's common agricultural policy also raised many interesting questions, particularly since Hungary had enjoyed the reputation of being a keen supporter of trade liberalisation and an opponent of market deteriorating agricultural subsidies in the international arena (GATT, Cairns Group) from the 1970 onwards. Halmai (1993) discussed the reforms of the CAP, and the situation of Hungarian agricultural exports in context of the Europe Agreement. Examples of some of the many other publications discussing Hungarian agricultural policy and the CAP are Falussy and Izikné (1995) Varga (1997), Erdész *et al* (1998), Varga (1999), Fertő *et al* (2001), Sharman (2003), König (2005).

Finally, before considering contemporary literature on Hungary as an EU member it is interesting to briefly consider how Hungary's relations with the EU appear in the "foreign" literature. Typically, in Western academic publications, Hungary tends to feature in comparison with its neighbouring ex-Communist and new EU member countries - Poland, Czech Republic, Slovakia, Slovenia, and occasionally Romania and Bulgaria. The most frequently covered areas of these comparisons are economic performance, fiscal policy and institutional reforms. Brusis and Dimitrov (2001), for example, examined the impact of institutional reforms on fiscal performance in Hungary, Poland, the Czech Republic and Bulgaria in the early 1990 and at the end of 1990s. The question of how to reform a post-communist central administration was the core question of an analysis made by Goetz (2001), and Goetz and Wollmann (2001), who compared the four countries mentioned above. Meyer-Sahling (2001) on the other hand, looked in greater detail at the Hungarian civil service reform.

Before EU enlargement in 2004, Western researchers also appeared particularly interested in the extent to which potential new EU Member States could claim to be "European" from a cultural point of view. In this context Laitin's (2002) findings are similar to those of Fuchs, Klingemann and Zielonka (2006): there is no distinction between East and West concerning the perception of European culture as a Pan-European entity, or values shaping political culture like democracy. On the other hand, there is still an ongoing debate among scholars worldwide whether "a European culture" exists at all (e.g. Burgess, 1997) and defining and strengthening a European cultural identity is one of the core debates in the EU itself. The Hungarian government seemed to sense this "cultural uncertainty" and it published in English on the web site of the Hungarian Ministry of Foreign Affairs a

lengthy essay about Hungary's contribution to European historical and cultural heritage (discussed further in Chapter 6).

Contemporary Literature on the EU-Hungary Relationship since 2004

Generally, it is clear that in the contemporary Hungary-EU literature, the key questions of economic performance and the possibilities of engagement in different sectors within the EU, as well as questions of law harmonisation are still the leading research areas. Since Hungary's EU accession, however, there have also been some new research areas of growing importance, like institutional design, regionalism versus Europeanism, structural funds, and participation in the EU's decision making process within the different EU institutions. A reference should also be made to the importance in these developments of the now-regular Hungarian academic and scientific publications like "Európai Tükör" (European Mirror), „Európai Műhelytanulmányok” (European Workshop Studies) and further publications of the „Nemzeti Fejlesztési Hivatal”, (National Development Institution, since 2007 National Development Agency) which include publications from a wide range of areas such as law harmonisation, culture and education, energy sector, monetary and fiscal policy, foreign policy, social studies and economics.

To identify literature on EU-Hungary relations since Hungary's EU accession, the Hungarian Electronic Library and the search engine of the National Széchenyi Library were accessed. This search revealed 102 electronically available books or academic/scientific articles and a total of 368 printed publications produced between 2004 and April 2007 (excluding newspapers and professional journals, like regular juridical publications). This is a considerable research output for a period of only three years, when

compared with the number of publications on EU-Hungary relations that were produced between 1969 and 2003 (a total of only 219).

To provide valuable information for New Zealand a deeper examination of Hungary's future assets, involvement in different EU institutions, and the country's possible roles and interests in the EU were considered the most important issues to explore. Thus, the contemporary literature review focused on these areas. A starting point of this literature review is the article of Konrád and Vándor (2004). The paper examines the development of economic and diplomatic relations between the EU and Hungary and also points to Hungary's interests and possible contributions to the EU beyond just economic areas. In addition, the competitiveness of Hungarian products and services on the EU market remains an important issue in the future. While Lakatos (2004), Losoncz (2004), and Buzás (2005) provide an analyses about the competitiveness and the possible changes in position of Hungarian products in the EU market in general, there are also authors with more sector specific investigations, like Hegedűs *et al.* (2005) who discussed the real estate sector, transport and logistic and food industry; Lengyel *et al.* (2006) who investigated the possibilities of the Hungarian construction industry and Molnár (2006) who analysed the competitiveness and possible strategies of the Hungarian food industry in the wider European marketplace.

The challenge of following both a European policy and a regional policy is an important issue for many EU members and the successful integration of the two is an important condition for the functioning of the EU. In particular, small states like Hungary must carefully differentiate between the areas of regional and/or European interest to maintain both national and European interest (e.g. sensitive question of free acquisition of land for

non-Hungarians or border security versus travel restrictions for Hungarians living in the neighbouring countries outside the borders of the Schengen Agreement). This issue is also closely related to the ability of a country to influence the decision- and policy-making process of the EU. It would seem that following an active European policy would secure the most advantages of EU membership. However, being a small country with limited financial resources also means that Hungary must carefully select those areas where an active participation would be preferable and would bring the greatest advantage. In this context Ellison (2006) and Ágh (2006) investigated whether or not the country can fulfil its ambition of becoming a “policy maker” instead of a permanent “policy taker”.

Because of the very recent nature of Hungary’s EU membership, the identification of areas where the country could play an influencing policy role was only partially covered in the literature research as the evaluation of its experiences in the first five years of EU membership are still being conducted. Thus it was essential that the literature review be supplemented in this study by the conduct of interviews with key political and economic decision makers and professional analysts.

2.2.4 Literature on New Zealand and Hungary within the Context of the EU

The volume of studies which investigate the relationship between Hungary and New Zealand in relation to the EU is very limited, and much of what does exist views Hungary as simply a member of the block of new Member States, as illustrated by the work of Petrovic and Barrel, (2003), McMillan (2003), Kaiser and Elvert (2004), and Gibbons (2004, 2005). Limiting their focus specifically to Hungary and Poland, Saunders (2003), and Ockelford (2004) researched the potential agricultural interests of New Zealand post-enlargement. Ockelford (2004) specifically focused on the threats and opportunities that

were considered likely to arise for New Zealand's agricultural exports after enlargement. The author undertook a comparative analysis of the availability of the main agricultural products in the new EU Member States with case studies conducted in Poland and Hungary. The study concluded that new opportunities for New Zealand exporters within the agricultural sector "...are limited and there is currently minimal interest being demonstrated by New Zealand companies." (2004, p.47) As an alternative Ockelford also stressed the importance of more people-to-people relationships and networking with representatives of the Hungarian political and business communities.

Gibbons analysed the development of trade between New Zealand and the EU members since the late 1950s. Based on trade figures and statistical data Gibbons concluded more optimistically than Ockelford that the enlarged EU offers "...ongoing opportunities to sell agricultural and agro-tech goods to the new EU countries...(and)...to import competitively priced goods..." from them. (2004, p.16)

Comparing the literature published in Hungary about New Zealand with the literature available in New Zealand concerning Hungary, it was found that the latter were written mainly between 2000 and 2004 during the lead-up to the enlargement, while most of the Hungarian literature about New Zealand was published in the 1980s and 1990s. This was the period when Hungary became aware that it could not maintain the status quo, and both scientists and journalists started to look globally, keen to adopt whatever could be useful for redesigning their country. As the prospect of joining the EU became more assured, political and public interest shifted increasingly towards Europe and understandably more research was devoted to EU related topics.

Parallel to this phenomenon the interest in Middle and Eastern Europe started to rise in New Zealand after 2000, because of the possible political and economic effects described above. Articles in New Zealand prior to 2000 mentioned Hungary mainly in international contexts such as economic-political transition in Eastern Europe after 1989 in general, as well as through global issues like the enlargement of NATO.

According to the CD-ROM published by the Hungarian National Bibliography (No 1/2004) most of the New Zealand related articles, books and research materials between 1993 and 2003 were written in the 1990s on a per year basis. These publications were country specific, focusing directly on New Zealand and less so on the international context. Nearly all of this literature points to New Zealand as a good example for Hungary to follow in specific areas. The most frequently covered areas were:

- The reform of the state fiscal policy in New Zealand;
- New Zealand agricultural policy as a good model;
- Features of the New Zealand social welfare and education systems;
- Behavioural patterns in business relations;
- Economic-political changes in New Zealand in general; and,
- New Zealand as a tourist destination (see more details under section “Publicity” in Chapter 7).

Literature on Relations between New Zealand and Hungary in Specific Areas

During the investigations of this study, no existing academic research could be found that directly addressed the development of relations between New Zealand and Hungary. Thus, and in line with recommendations made by Petrovic and Barrer (2003), and Benson Rea and Mikic (2005), it will be the task of the present thesis to make a first attempt at

gathering and analysing information to provide an overview about the development of the relationship between New Zealand and Hungary.

2.2.5 Summary of Empirical Literature

As has been seen in this literature review, the number of academic studies devoted to analysing the relationship between New Zealand and the EU is increasing, but that research conducted in relation to the EU's overall importance for New Zealand is, as outlined earlier, still underrepresented, particularly in areas other than trade. When focusing specifically on the topic of EU enlargement and its possible effects on New Zealand, this research review revealed that even the few available studies discussed the new EU members, - despite their economic, industrial, geo-political and cultural diversity -, as a bloc that New Zealand should pay more attention to generally. In those few country specific analyses, Poland and Hungary were discussed together and most frequently in an agricultural context.

Summarising the results drawn from reviewing the publications devoted to New Zealand and the EU it can be argued that there is a general agreement on the necessity for further country specific studies in order to more fully explore the opportunities for New Zealand in the new EU Member States. In relation to the specific interactions between New Zealand and Hungary in different policy areas, this review has revealed that no such country specific analysis has been conducted. These findings have largely determined the explorative nature of the current thesis.

Finally, and referring once more to the Figure 2.2, this thesis can be positioned as the first contribution to the 'New Zealand-Hungarian relations' segment of the diagram. As the EU

plays a major role in both nations' economic and foreign policy and has played a significant role in the re-evaluation and modification of bilateral relations between New Zealand and Hungary, the development of bilateral relations between New Zealand and the EU, as well as between Hungary and the EU also form a significant part of the thesis.

2.3 Theoretical Framework

2.3.1 Introduction

The search for commonalities between the New Zealand and Hungarian academic literature revealed that the development and evaluation of relations between the two countries and the EU were most frequently made from the perspective of a small state. Publications and interviews in both New Zealand and Hungary repeatedly referenced the relative smallness of these countries in relation to the EU as well as to difficulties in various areas that arise from this smallness. Because of the prevalence of such sentiments in academic discourse, the decision was made to apply Small State Theory as the overall framework for this thesis. The theory was applied in the research by following the historical sequence of developments and by simultaneously noting its apparent limitations in particular cases.

In addition to Small State Theory, and in light of its conceptual weaknesses in certain areas, another theoretical framework was also incorporated into the thesis. To understand the significance of people-to-people relationships in international trade as well as the role of expatriate networks in penetrating foreign markets the Theory on the Role of Ethnic Networks in International Trade has been employed to provide useful insights. The combination these two theories provides a range of appropriate conceptual tools to adequately theorize the New Zealand – Hungarian relationship.

2.3.2 Small State Theory

This discussion of Small State Theory begins by exploring the historical background of the theory and the debate regarding what in fact constitutes a ‘small state’. Secondly, the behavioural characteristics of small states identified by different scholars will be compared and compiled in order to create an appropriate ‘attribute-pool’ for this study. Following this, arguments will be made regarding the relevance of these attributes for both New Zealand and Hungary in their foreign political interactions with the EU and with each other. The results of this analysis will highlight the strengths and weaknesses of Small State Theory in this research context.

2.3.2.1 Relevance and Development of ‘Small States’ Studies in Europe

While the second half of the 19th century brought political and economic unifications in Europe with the creation of several large states like Italy and Germany, the first half of the 20th century created a number of new small states as the result of the treaties of World War I. The assumption of the winning military coalition (France, UK and Russia) was that small states were economically and militarily too weak to be dangerous to each other or to other bigger states, and so creating several independent small states from a few larger states was seen as the solution for long lasting peace in Europe. However, as was noted by one scholar, “[h]istory was to prove twenty years later that instead of ensuring peace for generations to come, the peacemakers created a settlement that carried within itself the seeds of the Second World War and the Cold War...”. (Chaszar, 1982, p. 480) (See Chapter 5 for more detail.) The assumption that small states were weak and therefore inherently peaceful was thus proven fundamentally inaccurate, and as a consequence, understandings of the behaviour and characteristics of small states had to be immediately

revised. According to the newly created set of small-state attributes (these being that such states were unstable, and potential buffer zones) it was believed that the easiest way to manage small states was to put them under the realm of 'big brothers', thus cutting their independence in foreign policy and trade. The period after World War II in Europe thus became one of regional blocs and alliances.

As the developments of the 1980s and 1990s showed, however, forcing a number of nationalities and ethnicities to live under a single large power is only effective as long as that 'big brother' is perceived as powerful and interested in the welfare of the smaller states. Once that power and interest is lost, as happened in Eastern Europe during the 1980s and 1990s when communism began to collapse, the 'unified' states begin to fracture into smaller nations. These disintegrations and separations in Europe occurred with varying degrees of peace (compare, for example, the break-up of Czechoslovakia with that of Yugoslavia). The newly won freedom of the former 'Eastern-Bloc' countries to pursue their own domestic and foreign political interests brought them suddenly into a situation where they found that they did not belong anywhere in the international political arena. New dilemmas arose, the responses to which influenced not just the domestic and foreign policy of those countries but also the future direction of the European continent. Among the leading political questions asked by the new small states of Eastern Europe during this time were:

- Who protects us from our interventionist protector (the Soviet Union)?
- Who protects us from ourselves? (In the case that extremists are reaching for power in a non-democratic way, such as a military putch, will any nation or military alliance like NATO provide assistance to restore the order?)

- Who protects – or how to protect – the post-communist small state from neighbouring ones? (In the case of a foreign attack on a post-communist country would any nation or military alliance like NATO provide assistance to help defend the country?)
- Who protects us from our next-door neighbour? (In the case of Ethno-territorial political conflicts in the region resulting from World War I and World War II, would any nation or military alliance intervene)? (Kiss, 1996, pp. 243-244, *translated by thesis author*)

Depending on their own particular circumstances, these questions were addressed differently by each of the newly emergent small states, (once again see the example of the ex-Yugoslavia for separation into ethnical territories by war as compared with the peaceful separation of the Czech and Slovak Republics). As history showed, the impacts of these different paths are not restricted to within the border of a single country but can instead act as either a stabilising or destabilising force in the surrounding region more generally. (E.g. at the time of war in ex-Yugoslavia Hungary had to prepare its shared border with extra military power and work out emergency programmes for those living in the border region in case of intended or accidental attack as well as assist refugees) .

While geo-politically speaking, New Zealand is not seen as a European country, through its close historical, political and economic ties with the UK in particular and Europe in general, its foreign policy decisions have been influenced by political and economic developments on the European continent: the small Pacific nation participated in both World Wars on the side of the UK, and the UK's entrance into the European Community had wide ranging impacts on New Zealand (see more under Chapter 4 on EU-New Zealand

relations). Furthermore, New Zealand's national value system, its institutional framework as well as its political system all have their roots in European approaches, and as such, the study of the interest, problems and successes of small states in Europe also has much relevance for contemporary New Zealand. Thus, the following discussion of literature which regards New Zealand as a small state will be made together with studies based primarily on European small states. Before discussing small state literature in more detail, however, it is necessary first to define the very concept of smallness.

2.3.2.2 Can Smallness be Defined?

During the first half of the 20th century in particular, small states were defined primarily by what they were not; that is, those states that were not great powers and did not insist on being recognised as 'middle powers' (like Australia and Canada, for example). More precise attempts to define small states have since originated from advocates of numerical criteria like the size of a population, the country's geographical area and various economic indicators such as GDP. These aspects have tended to dominate the literature and the importance of including other measurements like the relevance of case-by-case comparative evaluations between certain nations has been ignored. The following examples clearly highlight the disagreement among scholars concerning the definition of small states.

Vital's definition of small states (1967) imposed an upper population limit of between 10 to 15 million for 'advanced' states and between 20 to 30 million for developing states. (1967, p.8) Similarly, Barston (1971) and Gresham (1973) also adopted a population limit of 15 million for developed states to be defined as 'small'. Building on this rather specific definition, East (1973) and Herman (1975) instead used multivariate analysis to

determine smallness which included such factors as population size, as well as land area, production and wealth levels, and military capabilities.

Knudsen (1996) has more recently advocated the need for linking the term ‘small’ to a country’s political context, which consisted of the combination of transitory (situational) and given (constant or long term) characteristics:

Situational characteristics are elements such as the degree of threat to prioritised values, and the degree of time pressure. *Given characteristics* may be geography, ethnic composition, resource endowment, etc. The factors themselves may be reasonably familiar; the point here has to do with linking smallness to context, because only in this way is it possible to undertake a meaningful analysis of the significance of size. (1996, p.4)

Alternatively, and concerning economic strength in particular, Ólafsson (1998) added a new dimension to the criteria for small states; that of the Exclusive Economic Zone (EEZ). The EEZ refers to the economic right of a country to control a certain area of the sea or ocean, which contributes to the national GDP in the form of fisheries and other resources. Similarly to the findings of East (1978) and Katzenstein (1985), Ólafsson identified four elements to determine the smallness of a state: geographic character, material resources, human resources, and organisational capabilities. (1998, p.6)

Damijan (2001) developed a three dimensional matrix (which incorporated GDP, population, and geographic area) to classify countries as either large, medium, small or micro-states. The advantage of the author’s model is its flexibility over time as it allows for a state’s records to be updated as the country changes over time in each of the different dimensions. Thus the aggregate definition of a state might shift over time from being classified as micro into a small state and *vice versa*.

Finally, Geser (2001) distinguished between three particular types of smallness:

1. *Substantial smallness*: the “objective” or absolute small size of a country’s resources such as territory and population (e.g. Monaco in this instance would be classified as ‘small’);
2. *Relative smallness*: smallness in comparison to other countries (e.g. Belgium as compared to France, France as compared to the USA); and,
3. “*Subjective*” *small size*: the perception of either oneself or others as being small (e.g. Luxembourg). (2001, 89-100)

Concerning the last criterion of subjectivity, the contemporary literature often stresses the importance of self-perception in the development of a country’s foreign policy. The main argument is that if a country perceives of itself as a small nation, then it will plan to allocate its resources and determine its core interest according to attributes associated with this smallness (e.g. Mulgan (1998), Hey (2003)).

Institutions like the World Bank, the Commonwealth and the WTO tend to determine whether a state is small by using strictly population or economic criteria. Other studies conducted mostly from a security point of view instead assess countries on their ability to protect themselves or to be perceived as a danger for other countries. In this context small states are more often referred to as weak states rather than small *per se*.

The small state experience is familiar to anyone who has had to deal with the potential threat of being swallowed up or integrated into an adjacent or significantly more powerful neighbour. (...) it is the experience of power disparity and the manner of coping with it that should be our focus. (Knudsen, 1996, p.5)

Thus, taking a security-oriented approach, Knudsen (1996) believed that any numerical classification system was irrelevant.

2.3.2.3 Milestones in the Small State Literature

After World War II, the most important questions for small states were concerned with how the states would survive among the big powers. Approaching small states from a security perspective, Baker Fox's 1959 study, "The Power of Small States: Diplomacy in World War II" is arguably the first milestone in small state studies. Scholars questioning the ability of small states to protect themselves searched for alternative means which these small states could utilise to compensate for their weakness (Rothstein 1968, Vital 1971, Schou/Brundtland 1971, Mathisen 1971, Azar 1973, and Hareden 1985 as listed by Neumann and Gstöhl 2004, p.8). According to Vital, small states had three possibilities to choose from: a passive strategy of renunciation; an active strategy of altering the external environment in their favour (e.g. subversion); or a defensive strategy which attempted to preserve the status quo (e.g. traditional diplomacy, deterrence) (2004, p.8)

From a more economic perspective, the paper of Kuznets (1960) is seen by many scholars as the first attempt to identify potential economic problem areas which result from smallness in population, geographic area and natural resources. Following Robinson's report (1960) numerous investigations had been conducted to address the problems associated with 'smallness'. During the following decades not only was the term 'small' not defined as it had been previously, but authors also used a multitude of different expressions to refer to these 'small' nations, as listed by Dubbs (1990, p.1): "small nations" (Kuznets 1960), "small countries" (Demas 1965), "small territories" (Benedict 1967), "minute territories" (de Smith 1970), "small states" (Abbott 1975), "mini nations" (Corkran 1976), "mini states" (Khatkhate and Short 1980), "very small states" (Conroy 1982), "small economies" (Jalan 1982), "microstates" (Dommen and Hein 1985), "micro-

economies” (Bertram 1986), “small developing state” (Gayle 1986), “smaller developing nations” (Looney 1988).

Studying Small State Theory in an economic and/or political context reached a peak in the 1970s. Much of the early literature relied on the findings of Vital (1967) who concluded that, “...the survival of small, politically isolated states as independent powers is thus precarious, depending on multitude of factors over many of which they themselves have little influence.” (1967, p.190) From an economic perspective, small states were often described as demonstrating the following features:

- Strong dependence on external trade;
- Tendency for trade deficits;
- Dependence on a single export commodity;
- Inability to carry out capital intensive research; and,
- Export commodities usually comprising basic goods that require low capital investments. (Höll 1978, pp. 259-273; Vogel 1979, pp. 32-35; Handel 1981, pp.220-229)

An other important scholar referenced widely in Small State literature is East who further developed his earlier model in 1978 by adding a new factor to a state’s general resources: the level of social organisation. The author argued that simply possessing resources (land, population, natural and economic resources) is of no use if a state is not capable of utilising them effectively. Thus, the level of social organisation has a great impact on a state’s overall performance, in East’s opinion. East’s often cited foreign policy characteristics of small states are:

- A low level of international activity;
- Avoidance of the use of force as a technique of statecraft and a compensatory reliance on economic diplomacy;
- An avoidance of behaviour that might alienate more powerful states;
- A high level of participation in multilateral agencies; and,
- A high level of support for international norms. (East 1973, p.557)

East also noted that because of their limited diplomatic and other institutional resources, small states often cannot identify potential danger/problems in time when eliminating a problem should be relatively easy. Thus, when facing a crisis situation East contends that these small states tend to use generally ad-hoc strategies instead of taking a comprehensive approach. However, differing from the traditional view of small states as being unable to influence their own foreign policy course and being afraid of interfering with the interests of larger states, history has shown that small states are in fact more willing to take actions that might risk their security than large states if in the action is in an area of vital state importance (as was seen in the uprisings in Hungary in 1956 and those in Czechoslovakia in 1968).

Compared to the output of the 1960 and 1970s, research on small states experienced a decline in the 1980s and early 1990s. Studies published during this decade were more empirical than theory-driven, and focused increasingly on economic issues and international institutions rather than issues of security and politics (e.g. Krasner 1981, Butter 1985, and Clark and Payne 1987). The assumptions of small state theories of the 1970s (e.g. economic vulnerability and difficulties, security concerns) did not appear to be applicable in the 1980s, particularly not for successful European small states (like

Luxembourg, the Netherlands, Belgium, Austria etc.). Katzenstein's 1985 study is arguably revolutionary for this period. Katzenstein studied seven high-income small European states and came to the conclusion that the key to their success lay in the application of "democratic corporatism" in their political economies. The main characteristics of democratic corporatism in the Katzenstein view were: "compensation" for the victims of economic change; "flexible adjustment" to market-induced changes (as opposed to protectionist efforts to escape change or "planning" efforts to dictate its course); and economic liberalism or free trade. (1985, p.31)

Developments after the end of the Cold War showed that despite some similar patterns of small state behaviour identified in the earlier literature, domestic and foreign policy behaviour can take a very different course than expected, when either domestic or international conditions change. The end of the Cold War and the development of the European Community into a strong and dynamic economic-political entity, as well as global challenges (environmental problems, new diseases, terrorism etc.) influenced small states as they made decisions about the future course of their own policies. As a response to this, research conducted on European small states from the 1990s was increasingly critical of the traditional economic and foreign political patterns. Despite their critiques, however, the second generation of small state scholars did not attempt to establish an entirely revised small state theory. Instead, the new scholars aimed at contributing new dimensions to the discipline. Some of these dimensions were:

- Institutionalism (e.g., Kindley/Good 1997);
- Questions of ethnicity (e.g. Zahariadis 1994, Jazbec 2001, Kiss 1996);
- EU enlargement (Dosenrode-Lynge 1993, Goetschel 1998, Thorhallsson 2000, Krantz 2006);

- Security questions (often made in the context of NATO) (e.g. Bauwens/Clesse/Knudsen 1996, Jundzis (1996), Kiss 1996, Annuka 2001);
- Globalisation and internationalism (Ólafsson 1998, Hey 2003, Neumann/Gstöhl 2004);
- The diminishing role of borders due to technological development and trade liberalisation (Armstrong/Read 1998, Moses 2000, Salvatore/Svetlicic/Damijan 2001); and,
- New foreign political roles and tools for small states (Björkdahl 2002, Park 2005, Sjö 2006, Thornton 2006).

Thus, in summary, the evolution and themes of Small State studies have been greatly influenced by global economic, political, and technological developments. Table 2.4 provides an overview of the synopsis of small state studies.

Table 2.4: Synopsis of Small State Studies

	1950s-1970s: Heyday	1980s: Standstill	1990s-today: Revival
Historical Events	Cold War conflict, proliferation of small states through decolonisation	decline of the U.S. hegemony and rise of global interdependence	end of Cold War, globalisation and regional integration, proliferation of small states through disintegration
Small State Topic	definition of small states, size and foreign policy, security issues, small and micro-states in international organisations	small states and economic interdependence, development issues	small states in European integration and in globalisation processes, ethno-political conflicts

Source: Neumann, Iver B and Gstöhl, Sieglinde: Lilliputians in Gulliver's World? Small states in international relations, Working Paper, Centre for Small State Studies, University of Iceland, May 2004, p.13 (a shortened version)

Having now seen the development of small state literature in general, the next section of this chapter looks at the main foreign political characteristics of small states identified over

the 40 years of the theory's existence, and investigates whether the discipline can claim to have a common acknowledged theory today.

2.3.2.4 Critiques of Small State Theory

According to the literature discussed above, there appears to be a unity among scholars that the term 'foreign policy' includes for most small states questions of security, foreign trade, and participation in the international arena. Small State Theory contends that small states will display similar characteristics in their foreign policy behaviour. If, however, an attempt is made to summarise these main characteristics that have been identified by scholars over the past four decades, the list is not only long but in certain areas is also highly controversial. Table 2.5 shows these key characteristics which have been grouped around the three major foreign policy areas: security, foreign trade and the international system.

In the area of security, there are a number of small countries which prefer military interventions rather than diplomatic solutions (e.g. Israel, Serbia). On the other hand, the characteristic of a "high proportion of strength always mobilised" is contrary to the statement of concentration on and preference for diplomatic and economic foreign policy instruments. There is also a discrepancy between choosing a neutral position and relying on global superpowers for protection, as choosing one superpower inherently means the concession of neutrality (e.g. despite first attempting to maintain a neutral position, the Baltic states' accession to the NATO clearly moved those states militarily closer to the USA than to Russia).

Table 2.5: Main Characteristics of Small State's Foreign Policy Behaviour

Characteristics of Small State Foreign Policy Behaviour
<p><u>SECURITY</u></p> <ul style="list-style-type: none"> • preference for diplomatic and economic foreign policy instruments as opposed to military instruments • a high proportion of strength always mobilised or at its disposal • maintaining a neutral position • reliance on superpowers for protection, partnership and resources • spend a large level of foreign policy resources on ensuring physical and political security and survival • avoidance of behaviour and policies which tend to alienate the more powerful states in the system <p><u>FOREIGN TRADE</u></p> <ul style="list-style-type: none"> • high degree of specialisation in a narrow range of products • small domestic market, hence high dependency on foreign markets of imports and exports • concentration on a few trading partners • focus on their neighbouring and regional areas • striving towards opening the economy and thus more vulnerable to uncertainties in the world markets • co-operation and special arrangements in international organisations widen the room for action • high dependence on foreign capital <p><u>INTERNATIONAL SYSTEM</u></p> <ul style="list-style-type: none"> • low level of participation in world affairs • narrow scope of foreign policy issues: concentration on building economic relationships • focus on their neighbouring and regional areas • emphasise international principles, international law, and other 'morally minded' ideas • secure multinational agreements and join multinational institutions whenever possible • aim to co-operate to avoid conflict with others • little or no influence on the balance of power or the nature of the system • mainly passive and reactive in foreign policy • high level of activity in intergovernmental organisations

Source: list combined and paraphrased from Handel (1981), Jundzis (1996), Hey (2003) and Krantz (2006)

Perhaps the strongest agreement amongst scholars is on the characteristics of foreign trade policies of small states. While arguments about small domestic markets, a dependence on international trade and open market policy are generally empirically confirmed, the question of physical distance of most preferred trading partners is increasingly invalid due to the technical developments in information transmission and transport (e.g. New Zealand's second important trading partner after Australia is not a near island, neither a second or third distant larger country, but is instead the geographically-distant EU).

Regarding some typical behavioural aspects of small states in the international arena there seems to be unity in the argument that small states tend to focus on a couple of key areas in their foreign policies, prefer to join international organisations, and are a strong supporter of international norms and law. This latter point, however, cannot be claimed to be universally true, as many small states – like many large ones – often disregard international norms on certain issues, like human rights and ethnicity protection for example (e.g. Albania). The question of conflict avoidance as a typical small state attribute in the international system is also an increasingly doubtful one. If, as was shown under the security section, there are small states that are not afraid of taking military action instead of undertaking negotiations and seeking compromise to achieve their goals, it is hard to believe that while working in an international organisation they are merely policy takers and avoid confrontation. The last statement regarding small states' participation in high level activity at intergovernmental organisations is also inconsistent with the statement that they have little or no influence on the balance of power or the nature of the system (e.g. major role of the Netherlands in developing international law or the disproportionately strong role and position that Luxembourg holds in the EU.)

According to the examples above, small states might either be peaceful or militarily active, might either seek co-operation and follow a policy of acceptance, or might not be afraid of confrontations and hostility. Despite being highly economically vulnerable, some small states display the highest living standards in the world. Their limited resources allow a rather low level of diplomatic activity which contradicts the argument that many small states enjoy a rather high level of acknowledgment and position in international organisations. Whether we approach small states as successful entities or approach smallness as a potential source of problems, there are arguably many examples of both.

It is important to address here the inconsistent application of the attributes 'small' and 'weak'. Although scholars generally acknowledge that the phrases small and weak should not be used interchangeably, because some 'objectively' small states like Switzerland might also be powerful in certain areas (e.g. banking sector), the attribute 'weak' is widely used to classify a country as small especially by international institutions. Rather than using the two terms interchangeably, it would instead be pertinent to speak of small and large nations which might both display the characteristics of 'weak' or 'strong' states in certain areas.

In light of these many fundamental paradoxes in defining smallness and small state behaviour then, is it even appropriate to speak about "Small State Theory" at all? Certainly, the traditional expectation for theories to be universally applicable is failing here. The reason for this failure lies in the diversity of small states which are neither merely military powers nor constant over time, as will be argued in the following section. Taking into account the function and goals of Small State Theory, however, even the somewhat controversial statements on small states' foreign policy behaviour can be used

effectively when assessing and comparing states with each other. The theory helps to identify states with similar characteristics and arguably is a useful tool when looking for patterns or alternative examples at certain milestones in the foreign policy of a small state.

While acknowledging this useful function of Small State Theory, however, this thesis contends that traditional Small State Theory has paid insufficient attention to some important influencing factors of foreign policy development. These key factors are:

- **Global changes and challenges:** changing international political and economic conditions, technological development and global environmental problems induce small states to prioritise their goals differently from those goals of the 1960s, 1970s and 1980s.
- **Human dimensions:** the term human dimension includes here the society with its values system and expectations, the people in government, and their foreign policy makers and diplomats. The experience, expertise and interpersonal skills of the latter may significantly influence the image and the negotiation successes of a small state.
- **Bureaucracy and Decision Making Processes:** the responsibilities and delegations given to diplomats in the decision making process in their governments also influences their ability to negotiate flexibly at the international roundtable. Thus the decision making process between the governmental bodies and the involvement of foreign representatives is also an important factor, especially when time is restricted or a rare opportunity arises.

If the usefulness of Small State Theory as a comparative tool for assessing states to each other is accepted, the above critique then falls close to Rosenau's approach (1966, pp. 27-

93) which suggested that a “five level analysis” be carried out when comparing states to each other. Those five levels were: the position in the international system, role (bureaucratic actors), government (relationship among government actors), society and idiosyncratic (individual). Considering the focus of this thesis on the EU context, we can easily find some contemporary examples of negotiation tactics (cf. Sjö, 2006 regarding small states in asymmetric negotiations), the importance of human dimensions (cf. Hey, 2003 regarding Luxembourg) and the size and type of administration processes in small states (Thorhallsson, 2000).

As a final issue the debate on “domestic policy driven foreign policy” or “foreign policy driven domestic policy” should be addressed. The first assumes that international constraints influence state behaviour in that international pressures will override the domestic interest. In contrast, domestic level theories instead expect that the characteristics of a particular state may influence its foreign policy choices and might not always reflect national security interests. (Elman, 1995, p.171) Comparing the results of literature research conducted on the development of relations between New Zealand, the EU and Hungary with the theoretical debate on small states, it seems that although foreign political pressure might indeed override national interests in certain situations, these situations are more of an extreme nature, and tend to occur particular if the security or solvency of a state is in question (e.g. introduction of communist system in Hungary on Soviet pressure after World War II.) There are also examples when it is not clear whether the domestic policy has influenced the foreign policy or *vice versa*. Although the need to meet the Copenhagen Criteria was stated to be a key reason for the economic savings policy in Hungary, which seems at first to be a ‘foreign policy dominance’ over domestic policy, it was, however, a domestic decision to join the EU as Hungary’s domestic interests seemed to be more

achievable within rather than outside of the EU. Thus it can be argued that while there is a strong interrelation between the global environment and a particular country within it, in normal circumstances, domestic interests and capabilities will influence the scope and success of foreign policy of small states.

2.3.2.5 The Applicability of Small State Theory for New Zealand and Hungary

In the following section, it is first assessed whether New Zealand and Hungary in relation to each other, and to the EU as a single entity can be referred to as small states within this thesis. The variables GDP, population, and area are quantifiable (see Table 2.6).

**Table 2.6: Comparative Size Assessment between New Zealand, Hungary and the EU
(as of 2005)**

Variable	New Zealand	Hungary	European Union
Land Area (sq km)	268,021 sq km	93,030 sq km	3,883,342 sq km (excl. Hungary)*
Population (2006 est.)	4.099 million	10.087 million	446,971,924 (excl. Hungary)*
GDP total (2006 est.)	US\$106.422 billion	US\$176.360 billion	US\$12.02 trillion (excl. Hungary)*
GDP per capita (2006 est.)	US\$25,950	US\$17,483	US\$26,890 (excl. Hungary)*

Source: Statistics of the OECD, <http://stats.oecd.org/wbos/Index.aspx?querytype=view&queryname=221#> accessed on 23 September 2007

*Author's calculation based on EU total figures minus figures of Hungary.

According to the size of their population and land area, both New Zealand and Hungary can be assessed as 'small' vis-à-vis the EU.⁴ While New Zealand's land area is approximately three times that of Hungary's, Hungary's population is more than twice as

⁴ While the EU is not a country per se, in this thesis it is regarded as a single economic or diplomatic entity.

large as New Zealand's. When compared with other nations, however, Hungary still belongs to the group of countries with small populations. Considering their total GDP, both New Zealand and Hungary are small countries in comparison with the EU. On the other hand, GDP per capita reveals that New Zealand's pro capita productivity is very close to that of the EU. Hungary's, however, falls far short. These figures indicate that New Zealand is a *small developed* country in comparison with Hungary and the EU average, while Hungary is a *small developing* country with comparison to the other two.

Concerning the question of perception, New Zealanders tend to see themselves in relation to the EU as citizens of a small developed country. This view is expressed both by the New Zealand public as well as by the country's political and economic elite. (Mulgan, 2004, p.20) The common Hungarian association of New Zealand is that it is a small, developed country with 'Western European' attributes. Hungarians, on the other hand, perceive their country as a small one with scarce resources, and one which is still under development. While Hungary sees itself as a small developing country with much potential, especially in the EU context, New Zealanders generally have no associations of any kind of 'potential' when thinking of Hungary. (See more in Chapters 8-9-10).⁵ Thus, in light of these comparisons, it can be argued that in this thesis both Hungary and New Zealand can be referred to as small states. Next, some assumptions should be made about which small state characteristics are relevant for these two countries.

Foreign Policy Behaviour of New Zealand and Hungary

The following section will assess whether the attributes of small states according to the traditional Small State Theory are applicable for describing the foreign political behaviour

⁵ Although according to the survey conducted as part of the thesis there was a difference between the perception of New Zealanders living at home and those living in Hungary.

of Hungary and New Zealand towards each other and the EU. Considering the past and present economic and political connections between New Zealand, Hungary and the EU, the evaluation of *security* questions seems to be irrelevant, as small countries do not need to fear a military attack by the EU or by each other when taking actions that may face the disapproval of others. Thus the first appropriate area of discussion relates to the *foreign trade characteristics* of New Zealand and Hungary. According to trade figures, both countries have a small domestic market that makes them heavily dependent on imports and exports. While New Zealand specialises in high quality agricultural products (dairy, sheep meat and agro-technology in particular), Hungary has changed its economic direction from a concentration on agriculture and has instead raised its profile as a machinery, medicine and information technology provider. Although both countries specialise in a relatively narrow range of products, the developments of the last decade have shown that these small countries have not limited themselves to one product range but rather have increasingly sought alternative industries in which to be competitive on foreign markets (e.g. New Zealand's promotion of its tourism industry, bio-technology sector and educational sector abroad).

To enhance the inflow of international capital, both Hungary and New Zealand have arguably displayed the characteristics of open economies since the 1980s and both have been strong promoters of barrier free international trade, in particular while working together in the Cairns Group and GATT. It is also true that both countries are involved in a number of international organisations from WTO, to IMF and GATT, to different industry specific institutions (see more examples later in the thesis in Chapters 4 and 6). In relation to the EU, both New Zealand and Hungary prior to its accession, succeeded in making special arrangements and achieving allowances for their products in the Union. Although

these arrangements were not always as favourable as the small countries wished them to be, their benefits were substantial (see more in Chapters 4 and 5). The focus on neighbouring and regional areas in trade relations advocated by Small State Theory is thus only partially true for New Zealand. As trade figures show, New Zealand's main trading partners are Australia and secondly, the EU – an entity that is neither in New Zealand's immediate neighbourhood nor even in its region. On the other hand, Hungary's main trading partners are Germany, Austria and Italy, making this particular criterion applicable in the Hungarian case.

Considering New Zealand's and Hungary's behaviour in the *international arena*, it can be generally agreed that both countries have a relatively low participation in world affairs; a fact which is partly caused by their low number of embassies when compared with the number of foreign posts maintained by large countries. Comparing New Zealand as an economically strong country relative to the weaker performance of Hungary, it can be seen that New Zealand's involvement in significant world affairs is relatively high, in terms of aid donation, peace-keeping, and its Pacific policy, for example. While Hungarian representatives are often present in a range of international transactions, the European country appears most frequently as part of a larger team, and has less capital and more knowledge-intensive assets. This policy secures Hungary a relative visibility in the international arena despite the country's financial constraints.

Turning to the characteristic of a narrow scope in foreign political issues, both New Zealand and Hungary have shown a concentration of efforts in promoting their economic relations with other countries. In the case of international law and principles, New Zealand is especially active in global environmental protection issues and refugee protection, while

Hungary is one of the leading advocates of human rights and minority protection. Although both countries emphasise co-operation and diplomatic tools when problem-solving and oppose military intervention, neither is afraid of raising their voice against more powerful states to protect their interests as seen, for example in New Zealand's banning of nuclear-powered American naval ships, and Hungary's refusal to send Hungarian soldiers to Iraq. These examples are, however, more indicative of extreme situations than the norm, and generally both New Zealand and Hungary prefer to avoid unnecessary confrontation with other states. In those foreign political issues which are of relatively low importance for them, New Zealand and Hungary follow a rather reactive foreign policy. In cases of significant importance or where they perceive themselves as being of a relatively high competence, both countries try to act proactively and set an example for others to follow, as in for example Hungary's minority policy proposal in the EU.

Both countries consider being active in international organisations as a cost effective method of promoting themselves and for finding allies with similar interests. Since becoming a member of the EU, one of Hungary's main foreign policy aims has been to become "a policy shaper instead of a policy taker" (Avery, 2004, p.1) within the EU (see more in Chapter 6).

2.3.3 Theory on the Role of Ethnic Networks in International Trade

As a result of the past decade's enormous technical developments, transportation and communication costs have decreased, leading to an enhanced movement of people, goods, and information between very distant countries. However, as Saxenian has noted, "[the] scarce resource in this new environment is the ability to locate foreign partners quickly and to manage complex business relations across cultural and linguistic boundaries..." (1999,

pp. 54-55). That is to say, although economies have become increasingly integrated with each other and there is an international movement towards the elimination of national trade barriers (e.g. GATT), unfamiliarity with languages, national customs, consumer preferences and market conditions continue to be perceived as significant barriers when entering foreign markets.

One of the trends that emerged regularly both in this study's interviews and in the responses given to the questionnaires was the apparent lack of networking and the under-utilisation by New Zealand of the potential use of expatriate New Zealanders in Hungary. The Theory on the Role of Ethnic Networks in International Trade provided useful frame to understand why research participants regarded networking as so important, and to determine whether a stronger connection of expatriates with their country of origin might result in opportunities.

2.3.3.1 Development of Theory

Theorising in the discipline of ethnic networks tends in general to be rather informal, but there is an excellent foundation of empirical studies based primarily on international case studies. Before investigating the core findings of these studies, it is necessary first to define what is meant by the concept of *ethnic networks*.

Rauch (2001, p. 1178) has defined *ethnic or co-ethnic networks* as "...communities of individuals or businesses that share a demographic attribute such as ethnicity or religion." Unless stated otherwise, the terms 'network' or 'networking' will be used in the context of ethnic or co-ethnic networks throughout this thesis. According to Rauch, the goal of these networks is to help network members to match with each other or to refer each other to

outside business opportunities. Rauch claims that, “[t]he trust produced within these networks may facilitate flows of financial capital as well as goods between network members.” (Ibid p. 1179)

As we are said now to live in an “information age”, where the electronic media, internet and other forms of advanced telecommunications are said to provide us with a near overload of information with just the press of a button, it could be argued the information accessible through these media makes ethnic networks rather redundant. As Benson-Rea and Mikic (2004, p.27) have countered, however, “[e]lectronic means of communication and doing business, however easy, cheap and helpful, are no substitute for face-to-face relationship building.” As building face-to-face relationships is particularly difficult when language barriers and cultural differences exist, ethnic networks may arguably play an important role as intermediaries especially in the early stages of entering a foreign market.

Rauch groups the core questions on the role of networks in international trade into three main areas: the role of networks in overcoming or creating trade barriers; the role of intermediaries who can connect foreign agents to domestic networks; and, the ability of transnational production networks to facilitate know-how and technology transfer.(2001, pp. 1177-1178)

International empirical studies have aimed to answer these questions either by following the network development of one specific ethnic group within several countries (e.g. Chinese nationals abroad) or alternatively through looking at several ethnic groups living in one country and examining the development of bilateral trade between their countries of origin and their host countries. The following section discusses in greater detail some of

the results of these international studies, which concentrate particularly on contemporary trade flows.

One of the earliest works on the impact of immigrants on bilateral trade was Gould's study investigating the development of bilateral trade volume between immigrants' countries of origin and their host country, the USA. Specifically, Gould monitored bilateral trade between the USA and 47 trading partner countries during the period of 1970 to 1986. His data indicated that, "...a 10 percent increase in immigrants to the United States will increase U.S. exports to the country of origin by 4.7 percent and U.S. imports from the country of origin by 8.3 percent." (Gould, 1994, p. 302-316) Gould also found that ethnic trade ties have a larger trade generating effect on consumer goods where qualitative features are important than on more homogenous, mass-produced goods. This is in line with the findings of Rauch and Trindade (1999) who investigated the trade generating effect of Chinese networks between 63 countries over the period from 1980 to 1990 and who found that there were higher trade figures for differentiated goods than for homogenous ones.

Head and Ries (1998) conducted a similar study to Gould's in Canada in which they monitored Canada's trade with 136 countries between 1980 and 1992. The authors also found an increase in bilateral trade between Canada and the countries of immigrants, although to a much lesser volume than had been found in the USA (they found that a 10% increase in immigrants would generate 1.3 Canadian export increase and an increase of Canadian imports by 3.3%.) (1998, p.48)

Wagner, Head, and Ries extended the Canadian study in 2002 to include the trade development between five Canadian regions and 160 other countries from 1992 to 1995 and in doing so reiterated their previous findings on the stronger trade generating effect of immigrant networks for differentiated goods.

Girma and Yu (2000) investigated the UK's trade with 48 countries including members of the British Commonwealth between 1981 and 1993. As New Zealand is a member of the Commonwealth, their findings are of relevance to this study:

Immigration from non-Commonwealth countries is shown to have a significant export-enhancing effect. By contrast, immigration from Commonwealth countries is found to have no substantial impact on exports. (...) this could be because immigrants from the U.K's former colonies (...) do not bring with them any new information that can help substantially reduce the transaction cost of trade between their home countries and the host nation. The study also reveals a pro-imports effect of immigration from the non-Commonwealth countries, whereas immigration from the Commonwealth appears to be reducing imports, perhaps reflecting trade-substituting activities by immigrants. (2000, p. 3)

Similarly to the work of Combes, Lafourcade and Mayer (2002), who investigated ethnic network and trade flows in France from 1978 to 1993, Blanes-Cristobal (2004) also concluded that immigrants had a special export generating effect in Spain, especially for intra-industry trade. Continuing his research Blanes-Cristobal conducted a study which looked at the impact of immigration on bilateral trade in Spain from 1995 to 2003. The author found that particularly those immigrants with a medium level of education and those involved in business activities influenced both the export and import volume of Spain positively.

Hong and Santhapparaj (2006) analysed the influence of skilled labour immigration on external trade in Malaysia. The scholars concluded their study with similar results to the above studies, although they made a special note that in their experience, the immigrant link was stronger to ASEAN countries than to non-ASEAN countries. Further studies with

similar conclusions in this discipline include Bandyopadhyay *et al.* (2006) and Dunlevy (2006), both of whom looked at immigrants to the USA, and Kumagai (2007) who examined the role of Japanese and Chinese networks in international trade.

Another study approached this phenomenon from a slightly different perspective, analysing the effect of the assimilation versus the non-assimilation of immigrants on the effect of ethnic networks on international trade. Epstein and Gang (2004) found that a greater assimilation to the customs of the host country actually weakens the trade generating effect of immigrants:

Migrants want to assimilate, and as they assimilate their consumption pattern comes to mimic those of natives. Natives, fearful of lost earnings, try to keep immigrants isolated. (...) Over time, migrant traders and migrant employees exhibit different interests in assimilation and in maintaining their cultural identity, and the interplay of their conflict with the actions of native-born over time provides further insights on the connections between ethnic networks and international trade. (2004, p.21)

In contrast, however, transnational networks may have also adverse effects for international trade: if the networks become too exclusive, this may limit their output and they might emerge as a trade barrier for non-members. Depending on the regulations within a network, it may limit the trading opportunities of members with non-members. Thus, the openness of a network is crucial for its positive trade generating effect (Rauch 2001).

2.3.3.2 Critiques of the Theory on Role of Ethnic Networks in International Trade

The studies discussed in the previous section based on theory showed a positive correlation between ethnic networks and the flows of investments and commodities between host and home countries. These studies, however, concentrated their measurements on easily quantifiable trade statistics, leaving others, like the indirect value generating effects of ethnic networks from consideration. Identifying the direction of investigations to which

ethnic network generated the most FDI or exported the highest quantities of certain commodities might be false indicators for the foreign or immigration policy of a country. Relying just on these findings may suggest that ethnic networks merely consist of merchants and disregard the immigration of ethnicities with lower FDI or export contribution to their host countries.

The goal of the next section is to highlight additional, indirect measurable value generating effects of ethnic networks both in their home and host countries, and to encourage further research in this wider context. As a first step, it is necessary to see the concept of ethnic networks not restricted to merchandise, but as existing across a wider Diaspora. In the following we use the term Diaspora as defined by Scheffer (1986, p.3):

Modern Diasporas are ethnic minority groups of migrant origins residing and acting in host countries but maintaining strong sentimental and material links with their countries of origin – their homelands.

Following this more inclusive view, the term ethnic network does not exclude those who are involved in research, educational or aid development projects, cultural and sport exchanges between their host and home countries, or set up educational and cultural institutions to maintain the culture or religion in their host countries. Useful international examples are that of the Irish and Chinese Diaspora.

Against these obvious positive manifestations of Diaspora activity, politicians and the media often criticise diasporas originating from the third world or developing countries, who either remit part of their incomes back to their home countries or arrange to bring friends and families into the host country. These remittances, however, contribute significantly to poverty reduction in the countries of origin, and allow the redirection of organised aid to other areas in acute need. Thus contrary to the mainstream political

approach of limiting the movement of Diasporas across borders, the study of the Migration Policy Institute “Beyond Remittances: The role of Diaspora in Poverty Reduction in their Countries of Origin” urges an “...immigration policy that creates opportunities for legal residence and fosters integration, and visa policies that make it easier for members of Diasporas to come and go between home and host countries.” (Newland and Patrick, 2004, p.6)

Most countries, however, have their own Diasporas living abroad as well. In the era of Cold War those who left their countries “for the West” had a negative image of life behind the Iron Curtain at home, and were prohibited from maintaining any home contacts. In other countries, expatriates were seen increasingly as “lost brains” and governments started working basically in two ways to fill the skill gaps: attracting skilled migrants into the country and, after this was proving to be an increasingly costly solution, trying to attract expatriates back to the country in the hope that their reintegration would be more effective than the integration of foreign ethnicities. Both approaches have their difficulties: absorbing a large number of skilled migrants requires an adaptive society, a society with institutions that is ready to see, accept, and support Diasporas with their special culture-societal customs and requirements (for example, see assimilations and acceptance problems of the Turk Diaspora in Germany).

The second alternative might face three problems: first, a skilled, successful, returning expatriate might face poorer working conditions in his home country, preventing him from carrying out his profession, if at all, at a similar level to that of the host country. Being successful depends on the interaction of many determinants, not just on the intellectual ability of a person. Second, as international management studies show, the culture shock of

returning managers and officials working over longer periods in foreign countries is usually bigger and their reintegration more difficult than their integration had been into their host countries. This phenomenon led to the development of reintegration programmes with dubious success, and it is hard to imagine that any country could finance all its returning expatriates. The third problem concerns offering special allowances (tax, accommodation) for returning expatriates against the 'normal' treatment of other immigrants. As a differentiation between 'successful' and 'unsuccessful' expatriates is hardly possible, it is quite likely that such 'incentives' will appeal to those who had difficulties in establishing themselves abroad, rather than those who were really successful and had developed a wide range of professional and private connections in their host countries (Gamlen, 2005, p.20).

Today it is argued that 'brain gain' strategies have largely failed (World Bank 2005). Consequently, many governments have begun to explore new policy measures that encourage expatriates to participate in their countries of origin without requiring them to return home. (Larner, Wendy 2008)

In line with these findings, the author suggests utilising the connections and expertise of national Diasporas without requiring them to relocate home. Instead, Governments should encourage them to interact with their home countries by paying them attention, and providing adequate legislative and societal backgrounds for the best possible utilisation of their expertise and international networks:

In this process the commitment and involvement of national based actors and organisations is crucial. At this point in time, indeed, the networks exist and their highly skilled members are motivated. The onus is really on the national community to utilize this resource to the fullest. (Meyer and Brown, UNESCO, 1999)

The above cited studies showed that ethnic networks can play in addition to the export-import generation further significant roles for a country's economy and foreign political relations in the rest of the world. The next section looks at whether these assumptions may have relevance for New Zealand and Hungary.

2.3.3.3 Relevance for New Zealand and Hungary

Following a similar methodology as the mainstream foreign literature listed above, Bryant, Genç and Law (2005) investigated whether "... a greater stock of migrants in New Zealand from a particular country leads to more trade between that country and New Zealand." (2005, p.1) The study concluded – similarly to the previous international investigations – that immigrants do contribute significantly to the development bilateral trade between New Zealand and their countries of origin. The authors, however, expressed uncertainties about the strength of this relationship, and felt that further study was needed which disaggregated imports and exports by commodity type to see whether migrants stimulate the trade of differentiated or more homogenous goods. In terms of the implications of their study for New Zealand's immigration policy the authors suggested that, "...immigration policies may need to be judged by their implication for trade, in addition to their implication for labour supply and human capital" (Ibid, p. 25).

Policy and academic interest in the New Zealand Diaspora has especially grown in the new century. The estimated size of the New Zealand Diaspora is around 850 000, of whom ca. 400 000 are supposed to be economically active. (Bryant and Low 2004, cited by Larner, 2007. p. 338.) As Larner sets out in more detail, since the report "New Zealand Talent Initiative: Strategies for Building a Talented Nation" (LEK Consulting 2001) the Government established a Diaspora policy based largely on possible economic advantages resulting from closer collaboration with expatriates in the areas of business, technology transfer and innovation. The Government especially addressed the leaders and successful people in business, technology, and later academia to contribute to New Zealand's economic development through their expertise and connections. Initiatives and programmes were co-ordinated by New Zealand Trade and Enterprise and the New

Zealand Ministry of Economic Development without the involvement of the Immigration or Labour Policy.

The elite, exclusive nature of the New Zealand Diaspora strategy is underlined by the fact, that the so-called ‘working class New Zealanders’ of Australia, who build a significant part of New Zealander’s living abroad, were not targeted to become involved with their home country. (Gamlen (2005) and Larner (2007)) While the positive contribution of the targeted elite to the domestic economy is undeniable, the lack of a more inclusive ‘All Kiwis Abroad’ aspect of the Diaspora strategy excludes a large section of expatriates, who could contribute positively to spreading New Zealand’s international reputation through their social channels (see relevant suggestions in Table 12.3, Chapter 12: Conclusion).

Considering the relevance of the Ethnic Networks Theory for Hungary no study could be found on the impact of various ethnic networks on Hungary or on the impact of expatriate Hungarian networks on Hungary’s international trade. The aggregate study of Bandelj (2002) on “Social Relations as Determinants of Foreign Direct Investment in Central and Eastern Europe” however, did investigate the political, emigrational, trade and cultural relations between investors in Hungary’s immediate region and their host countries. The author found that these aspects had a strong positive effect on the FDI in the Central and Eastern European region, including in Hungary.

The current Hungarian Government’s Diaspora strategy is very different from that of New Zealand, in that it is culture orientated and based on the view that the Government should help Hungarian Diasporas in maintaining their contacts and national identity with Hungary. Because of the large number of ethnic Hungarians living as minorities in the neighbouring

countries policies towards them had to be separated from policies targeting Hungarians living outside the Carpathian basin (referred to often as expatriates in the ‘West’, including e.g. also those in Argentina, Australia and Japan). The policy for Hungarians in neighbouring countries is focused on providing help to social, cultural, educational, and economic development of Hungarian minorities. Although the government successfully asked the group of ‘West’ Hungarians to contribute with investments and expertise to Hungary’s development especially after 1989 and during the economic – political transition period, at present there is not any targeted Diaspora policy of an economic nature towards them. Interestingly the present National Policy of the Hungarian Government not asks, but offers help for its ‘West’ Diaspora as well to maintain language and cultural identities. (http://www.nemzetpolitika.gov.hu/index.php?main_category=2)

This ‘all inclusive’ national identity nature of the Diaspora strategy is tangible for all Hungarians through the Government sponsored channel “DUNA Television” receivable free even in New Zealand and Australia. It broadcast reports about ethnic Hungarians in different countries as well as domestic news, historical, cultural, and scientific documentaries, programmes for children and education, as well as independent films mostly from Europe. Reaching Hungarians in the world in this way has proved to be very effective in crisis situations when the mobilisation of financial help was needed (e.g. flood in Transylvania or regularly in East-Hungary). On the other hand, as the Government acknowledged, exploring possibilities in context to the Hungarian Diaspora in the ‘West’ is a rather neglected area within foreign politics, economy and research, and deserves more attention.

With the help of this extended view of ethnic networks, interviews with expatriate New Zealanders in Chapters 9 and 10 examine the extent they were approached and their connections utilised by the New Zealand Government. Recognising the contribution and value of this relatively new theoretical approach has added useful theoretical context for analysing this study's interview and questionnaire responses, and in particular will enable further discussion of the opportunities and obstacles in the development of more intensive bilateral relations between New Zealand and Hungary.

2.3.4 Summary of Theoretical Framework

This chapter has shown that over the past 40 years, Small State Theory has not been a constantly applicable framework. Changing international political and economic conditions, the growing number of new states, the end of the Cold War, the development of the EU and other global challenges created an environment in which various small states were required to react differently, and in which their policies were seldom static. Small State Theory thus needed to be adjusted to allow for these new developments. This chapter has also revealed that when defining 'small states' and predicting small state behaviour, concentrating on a few characteristics like population, area, GDP is insufficient.

The critique of neglecting global changes and challenges, human and institutional determinants as policy shaping factors was expressed together with the question of importance of domestic interests in the foreign policy development of small states. However, despite these shortcomings, as an analytical tool, Small State Theory is indeed a framework that is particularly useful when comparing countries with each other or looking at the development of a single state over time. The results of such an assessment must

always be considered as time- and case-specific and not as universally true for all small states in all times.

When the key foreign policy characteristics of New Zealand and Hungary were assessed according to the traditional Small State attributes, both seemed to display the characteristics of rather internationally active small states. The chief goal of both foreign policies is, however, the promotion of economic ties between them and the world's leading economies.

Taking the special case of the development of relations between New Zealand, Hungary, and the EU, this thesis will identify to what extent the three less frequently analysed Small State factors that were discussed above, have influenced the foreign policy of these small states in their interactions with each other and with the EU. Thus in addition to answering the main research questions of the thesis, this study attempts to enrich traditional Small State Theory with some new dimensions that are worth considering in further small state research.

The Theory on the Role of Ethnic Networks in International Trade provided a useful background for the study to understand the significance of people-to-people relationships in international trade as well as the role of immigrants and ethnic networks in penetrating foreign markets. Although theorising in this discipline is rather informal, numerous international empirical studies concluded that ethnic networks and immigrants have a significant influence on international trade by overcoming or creating trade barriers, by acting as intermediaries between foreign agents and domestic networks, and by facilitating know-how and technology transfer.

Summing up we can say that the combination of these two different disciplinary approaches corresponds very well with the multidisciplinary nature - foreign policy, trade, and people-to-people relations - of this explorative research. The theories selected provided both a holistic (different areas to review) and a multidimensional approach (from state-level to individuals), and enabled the researcher to answer the research questions through exploring, analysing, and comparing a wide range of data sets and enhance their validity.

Chapter 3

RESEARCH METHODOLOGY

3.1 Introduction

As set out in greater detail in the “Empirical Literature Review” section, existing publications on the impact of the EU enlargement on New Zealand consider the relationship between New Zealand and Hungary to be peripheral. This factor largely determined the exploratory nature of this research. The goal of this chapter is to outline the research design, applied methodology, sampling strategies, data evaluation, role of researcher and the methodological delimitations of the study.

3.2 Qualitative Research Design

The topic of this study has a strong interdisciplinary character as it deals not only with politics, economics, and the processes behind them, but also with social aspects such as people-to-people relationships and culture. Accordingly, qualitative research methods outweighed quantitative research methods during the investigations. On the other hand, the political and economic dimensions, results and achievements do have to be accounted for, and with that in mind, the design of the methodology followed Layder (1993) who combined the two main lines of qualitative and quantitative research in a so-called “Realistic Approach”.

Although combining dual research approaches in one work appears to alleviate some research risks, this thesis contends that incorporating both quantitative and qualitative methods in the appropriate areas and stages of the study would have a complementary effect and would enhance the validity of the research. While quantitative methods were

found to be more useful for exploring the patterns of global trends in New Zealand and Hungary, questions concerning the backgrounds to these developments and what prompted them could be more comprehensively addressed by using qualitative methods.

The methodology as outlined below was selected after attending the “EU Research Training and Methods” seminar offered by the NCRE in 2005. For understanding the wider concept of qualitative research design the following literature among others provided useful background: Yin (1984), Layder (1993), Tellis (1997), Bernard (2002), Winegardner (2007). Becoming acquainted with a wide range of research methods within the areas of qualitative research design (case study, direct observation, unstructured, semi-structured and structured interviews, participant observation, building of focus groups and survey design) enabled the researcher to select those that were the most appropriate for this study. After the evaluation of the advantages and disadvantages for the thesis topic beside the classical method of literature research, two other research methods were selected to be studied in more detail: survey and interview design. In the conceptual preparation for the surveys the author relied on the insights given by Sinclair (1975), Walonick (1997-2004) and Creative Research Systems (2005) coupled with the practical help received in the “Research and Trainings Methods” seminar mentioned above. As for designing interviews especially the studies of Goldstein (2002), Leech (2002), Aberbach and Rockman (2002), Woliver (2002), and McLellan et al. (2003) provided useful insights. The author also reviewed the research design of past PhD candidates in the disciplines comparative international trade and policy (e.g Chetty (1993), Benson-Rea (2005)) to make use of their experiences with similar or different research methods.

As the purpose of the thesis is to explore how Hungary's EU accession influenced the development of relations between New Zealand and Hungary, the application of the case study method was considered to be the most appropriate to fulfil this purpose.

...an exploratory study normally focuses on current events and concerns and seeks to answer questions of how and why. (...) Some researchers see significant value in the ability of case studies to suggest a range of possibilities for a future which cannot be assumed to be a projection of the past. (Winegardner, 2004, p.6)

Firstly, a data search on the background and nature of relations between New Zealand and the EU, as well Hungary and the EU was conducted using literature research as well as interviews. Secondly, information on the political and socio-economic development of Hungary in Central–Eastern Europe, and on the country's European and international interests was gathered both by further literature research and interviews with representatives of the relevant institutions in Hungary. The third, primarily explorative part of the study had to be based on data received from the experiences, perceptions and intentions of political, economic and other representatives in both New Zealand and Hungary. The collected and evaluated data was used to provide answers to the leading research question concerning the opportunities and rationale for developing deeper and broader relationships between New Zealand and Hungary, and also to identify areas for further investigation.

Table 3.1 contains the summary of employed research methods according to the research questions.

Table 3.1: Methodology

1. How did relationships between New Zealand and the EU developed until recently?
2. How did relationships between Hungary and the EU developed until recently?
3. What are the main features of Hungary's political and economic position and interests within and outside of the EU?
4. How did relationships between New Zealand and Hungary developed prior to 1st May 2004?
5. How did relationships between New Zealand and Hungary developed after 1st May 2004?
6. What are potential areas of collaboration worth considering between New Zealand and Hungary in the future?

Sub-questions	Type of Data Required		Source of Data (for all questions within one row)	Method of Data Collection (for all questions within one row)	Method of Data Evaluation (for all questions)
	Qualitative	Quantitative			
1. Development of relationships between New Zealand and the EU	X	X	Statistics, Official documents, Researches, Literature, Institutions of Trade, Foreign Policy,	Literature Research, Semi-formal interviews, Correspondence with open-end questions	Interpretational analysis
2. Development of relationships between Hungary and the EU	X	X			
3. Main features of Hungary's foreign political and economic interests	X	X			
4. Development of relationships between New Zealand and Hungary until 1 st May 2004	X	X	Statistics, Individuals, Institutions, Companies involved in business or other projects between NZ and Hungary	Literature Research, Semi-formal interviews, Correspondence, Questionnaires (open-end and semi open-end questions)	Interpretational analysis
5. Development of relationships between New Zealand and Hungary after 1 st May 2004	X	X			
6. Potential areas of collaboration between New Zealand and Hungary	X				

3.3 Explanations to the Questionnaires and Case Studies

3.3.1 Method of Data Sourcing and the Use of Data

Data from research participants was received and used in three key ways (Table 3.2).

Table 3.2: Method of Data Sourcing and Use of Data Received from Research Participants

Method of data sourcing	Measuring instrument / use of data
Questionnaires conducted in New Zealand and in Hungary in 2005 and 2007	- survey analysis, comparison and evaluation between the two countries as well as longitudinal analysis
Interviews conducted in New Zealand and in Hungary in 2005 and 2007	- application in relevant chapters as contribution to written data
Deep interviews with two company managers each in New Zealand and in Hungary in 2005 and 2007	- development of four case studies

3.3.2 Sampling for the Questionnaires

Allowing for the distance between the two countries, the explorative nature of the research, and the given academic timeframe, the application of *purposive sampling*⁶ appeared to be the most manageable and adaptable approach for the surveys than representative or random sampling.

Companies, institutions, and individuals with at least one of the following features were contacted in both countries:

⁶ “Researcher handpicks subjects to participate in the study based on identified variables under consideration. Used when the population for study is highly unique.” Copyright 1997 Northern Arizona University, <http://jan.ucc.nau.edu/~mezza/nur390/Mod3/sampling/lesson.html>
See also Social Research Methods at <http://www.socialresearchmethods.net/kb/samprnon.php>

- Joint New Zealander and Hungarian capital;
- Involvement in trade between New Zealand and Hungary;
- Involvement in common projects of any nature between New Zealand and Hungary;
- Former involvement in trade or in common projects of any nature between New Zealand and Hungary; and,
- An intention to promote business or other type of relationship between New Zealand and Hungary within the period 2005 -2007.

Sources of Information (in both countries): Profit-making and non-profit organisations, Export-Import Institutions, Ministry of Foreign Affairs, Chambers of Commerce, Trade-Consortiums, Research Centres, Universities, other Ministries, Associations, Individuals.

Sample Size and Criteria of Project Success

Based on preliminary research and on the fact that not all contacted companies and institutions agreed to participate in the survey, the goal was to have a minimum of 30 research participants. Taking into account the distances between the two countries as well as the need for face-to-face interviews, the number of participants was limited to 50. To make the comparison of survey results between New Zealand and Hungary more reliable, it was endeavoured to have a similar proportion of participants in both countries and from each of the three participant groups (Individual, Business and Non-profit or Governmental). The actual distribution of participants over those categories in New Zealand and Hungary proved to be slightly different due to the difference in respondent rates (Table 3.3):

Table 3.3: Distribution of Survey Participants 2005

Participant Category	Participants in New Zealand 27 = 100 %	Participants in Hungary 20 = 100 %
Business	33.33 %	45 %
Individual	44.44 %	35 %
Non-profit or Governmental	22.22 %	20 %

Although the number of potential participants was 32 in both countries, 31 agreed to participate from the New Zealand sample and 26 from the Hungarian sample. The actual respondent rate was slightly different: while in New Zealand 87% of the participants returned the questionnaires by the required date, the response rate in Hungary was only 77%. By having a participant group towards the higher end of the desired scale, the validity of the results was heightened. Taking into account the two year gap between the two surveys, and the fact that not all participants were equally committed to the study, it was hoped that the number of participants in the second survey (2007) would be at least 20. Finally 29 participants took part in the second survey in 2007, which is 39% less than in 2005 (see greater detail in Chapter 9 and Chapter 10).

Data Storage

As the number of participants was small, no specific statistical programme was used for data storage and evaluation. The data of participants was stored in Microsoft Office Word and Excel tables. The survey data was evaluated using summarising table formats, quotations from participants and, to attain a better overall visualisation of the findings, by using various charts. As all research participants from Hungary spoke English as well, translating the questionnaires into Hungarian was not necessary.

3.3.3 Sampling for the Case Studies

Preliminary interviews and the literature review indicated that the main areas in which New Zealand aims to raise its profile in Central and Eastern Europe in general are agro-technology, tourism and education (in particular teaching English as a second language and attracting students at PhD research level). Thus, when looking for case study participants it seemed pertinent to select companies from these areas. A further consideration was to select companies from both countries. The rationale behind this was to allow for insight into the two ways of entering the Hungarian market:

1. By distributing New Zealand products and/or services in the Hungarian market;
2. By offering products and/or services in New Zealand in order to attract potential costumer to the country.

While New Zealand's agro-technology companies have been present in Hungary since the end of the 1980s, no official representatives of New Zealand tourism or education providers could be found in Hungary.⁷ The following four companies were identified and agreed to participate as case studies during the research period of 2005-2007:

- Aspiring Language Institute Ltd – Christchurch;
- Study Tours Ltd – Christchurch;
- HUNZAG Kft – Budapest (Hungary); and,
- Bentley Instruments Hungary Kft – Törökbálint (Hungary).

After establishing contact with the companies via e-mail and phone, semi-structured interviews of one-to-two hours were conducted on site in June/July 2005 and June/July 2007. Additional information about the companies was received via official company

⁷ Although two New Zealanders living in Hungary stated to offer in their free time, once or twice a year, as a second job guided tours for Hungarian groups in New Zealand.

information brochures and newspaper articles. The interviewees in all four cases were either the current or past general managers of the companies. In the case of Study Tours Ltd. and Aspiring Language Institution Ltd. the general managers were also the company owners.

3.3.4 Time Frame and Method of Data Evaluation

The goal of the questionnaires and case studies was to evaluate the period between June 2004 and June 2007 by receiving data about the business results and/or experiences of the participants, and to identify the changes, risks and opportunities for further development. Participants were asked to take part in questionnaires and eventually in interviews once in 2005 and once again in 2007. The data was evaluated by interpretational analysis, which has been defined as “...a process of closer examination of case study data in order to find constructs, themes, and patterns.” (Winegardner, 2004, p.14) Concerning the relatively small sample size, gathered data was stored, arranged and evaluated in Excel tables or in Word documents, and no special data coding software was used. Because this study incorporated multiple cases, it was necessary to apply two stages analyses: a ‘within case’ analyses for each case and a ‘cross case’ analysis. Where appropriate, data received from case studies was compared to the relevant published data and statistics at a macro-level to secure the “output of the rigorous and reliable data which could be used in providing evidence-based policy recommendations.” (Eticott, 2004, pp. 743-756)

3.3.5 Role of Researcher

As the study involved research in two different nations, the project benefited greatly from the language knowledge and cultural familiarity of the researcher who is Hungarian but resides in New Zealand. Having spent several years in East Germany, then in West

Germany as well as having a bi-cultural family living in a third country also contributed to the researcher's cultural sensitivity and openness; a necessary component when conducting research of this kind.

A good rapport was achieved with participants of different nationality, profession, gender and age. This was measured by the fact that participants, especially those interviewed, felt very committed to the study, and frequently provided additional information, contacts, and suggestions throughout the research period.

Participants' contributions were acknowledged by providing each one with the survey results from both countries (which in return received very positive feedback). Participants found the list of anonymous participants' quotations especially interesting as it enabled them to see how others in similar situations thought. A unique and additional value to the research project was created by facilitating networking amongst those interested through the establishment of a Participants List. Participants in both countries decided individually what data and information they wished to disclose and according to the feedback, the list immediately facilitated some new connections.

Finally, perseverance and flexibility by the researcher were inevitable in arranging meetings with participants in different cities, at different venues and times both in New Zealand and Hungary.

3.3.6 Ethical Considerations

The survey was approved by the University of Canterbury Ethics Committee prior to its conduct. All participants took part in the research on a strictly voluntary basis and gave

their written consent to use the data provided by them while preserving their anonymity. Data was handled confidentially throughout the whole research process.

3.3.7 Validity and Reliability

To ensure the validity and reliability of results, the suggestions of Altheid and Johnson (1994) to apply four types of “interpretative validity” have been followed throughout the research:

1. Usefulness (e.g. enlightens readers, moves participants);
2. Contextual completeness (comprehensive view of situation, e.g. historical or societal setting);
3. Research positioning (researcher’s awareness of their own influences); and,
4. Reporting style (objective, using the participants own biases). (1994, pp. 485-499)

Further, the following data source and methodological triangulation was applied continuously throughout the study (Table 3.4):

Table 3.4: Proof of Validity and Reliability

	Methods
Internal Validity	Test of initial research assumptions by data collection and analysis;
External Validity	Comparing the results with that of other relevant research and related surveys;
Reliability	<p>Using multiple sources of evidence: academic research, official documents, interviews, questionnaires (data triangulation);</p> <p>Development of a formal case study protocol (objectives, questions, participants, venues, date, summary of topic covered);</p> <p>Member checking (Case study participants reviewed and checked the report on accuracy and completeness.)</p> <p>Chain of evidence (research questions – methodology – raw data – findings);</p> <p>Pattern matching across survey results and case studies; and,</p> <p>Long term involvement of researcher (2004-2007).</p>

3.3.8 Presentation of results and limitations

Despite the personal involvement and knowledge of the researcher, this study endeavoured to present results in an objective writing style, however personal experience was used in one case to contribute to the illustration of Western European perceptions about Eastern Europe in general shortly after the fall of the Iron Curtain 1989, in Chapter 4. To strengthen the aim of objective presentation, the data is displayed using original quotations of participants, in tables or figures, to allow the reader to build their own opinion regarding the different outcomes of the study.

When reading and interpreting figures and tables it is important to remember that as the sample is not random, generalisations to the larger population, either in New Zealand or in Hungary, should not be made. A further important limitation arises from the different sample size between 2005 (47 participants) and 2007 (29 participants): data displayed in charts and tables should be treated as indicative trends rather than statistically precise.

Case studies should be considered as a contribution to the general understanding of developments from the point of views of those directly involved in interactions between New Zealand and Hungary.

3.4 Summary of Research Methodology

This chapter provided insight into the research design, methodology, sampling strategies, and data evaluation of the research. Summing up we can say that the combination of qualitative and quantitative research methods corresponded well with the multidisciplinary nature of the research topic and enhanced the investigation and cross-examination of a wide range of up-to-now partially unrevealed data.

Chapter 4

DEVELOPMENT OF RELATIONSHIPS BETWEEN NEW ZEALAND AND THE EUROPEAN UNION

4.1 Introduction

Cultural-historical data from the period of early European settlers in New Zealand during the 19th century, combined with past and present figures on bilateral trade and the increasing political dialogue on different areas indicate a special relationship between New Zealand as a small country, and the EU as global political player and economic actor.

This chapter firstly seeks to highlight the development of the most important political and economic relations between New Zealand and the European Union. The second section focuses on the vast disparity between the EU's importance for New Zealand in various areas and the perception of this importance amongst the New Zealand public, political and economic elite and the local media. This analysis is based on the findings from different research projects conducted at NCRE, University of Canterbury on the perceptions and media coverage of EU issues in New Zealand between 2000 and 2004. These findings are complemented by a smaller scale newspaper data analysis conducted between 2005 and 2006. The results will be contextualised by the perception of the EU's importance for New Zealand as expressed by expatriate New Zealanders living in Hungary, and with the immigration policy initiative of New Zealand to encourage expatriates to return to the country.

4.2 Political and Economic Ties between New Zealand and the European Union

4.2.1 Colonial Ties until the 1970s – Perceptions and Reality

Insight into the early development of New Zealand is considered to be an important contextualising factor, as the country's special relations to the United Kingdom (UK) played a key determining role in the development of its foreign political and trade relations until the last decades of the 20th century.

As is evident by rich cultural-historical data, in addition to its own indigenous Maori culture, New Zealand also has a deep European heritage thanks to the early European settlers who moved to the small Pacific country during the latter half of the 19th century, mostly from England, but also in smaller numbers from other part of Europe. Despite the numerous settlers from France, Germany and Ireland, because the final colonisation of New Zealand occurred under the realm of the British Government the ties to the UK have continued to determine New Zealand's cultural, economic and political development for more than one hundred and sixty years.⁸

It is interesting that the UK, a country with such a hierarchical social structure, supported the development in New Zealand of a state based on equality, instead of imposing their own class system. The UK was also a keen supporter of the unique social reforms and democratic establishments in New Zealand which were not discussed within the UK until significantly later. Some of the most important examples should be noted here: New Zealand was the first country in the world to give women the vote in 1893. Other ground-

⁸James Belich's extensive book 'Paradise Reforged – A History of New Zealanders...' (2001) provided deep insight into the historical roots of modern New Zealand's societal problems by sharply criticizing New Zealand's one-sided foreign trade and immigration policy.

braking reforms followed like the development of the Industrial Arbitration and Conciliation Act (1894) to protect workers' interests, the Old Age Pension (1898), and the National Child Welfare Programme (1907). New Zealand became an independent dominion in 1907. (Lockyer, 2002, pp.42-44)

In 1910, Szirtes, a Hungarian scholar, attempted to explore the background of these, at that time, unique developments in New Zealand. According to his detailed economic and social analysis, New Zealand was perceived "...as the most developed socialistic state system of our age"; however, this reputation was "...not to be hold at all to the triumph and achievement of socialism: the main background and condition to the rising and surviving of the socialistic state system is the antisocial – capitalist – interest of the British state." (1910, p. 624) This ostensibly controversial statement was further elaborated by Szirtes with various examples and figures, however, a full discussion of these would go beyond the scope of this research.

One of the author's more important arguments was that the UK was not interested in allowing the accumulation of capital in New Zealand, and passed a law that limited business capital, thus ensuring that no entrepreneurs could become so rich as to gain a stranglehold on the economic and political power in New Zealand. On the other hand, Szirtes noted that the UK was interested in the modest development of New Zealand and in the well-being of the colonial citizens, primarily in order to secure continuously cheap product flows from the colony. To achieve this goal, the UK also provided New Zealand with regular credits under very favourable conditions (3-3.5%). New Zealand quickly became used to these financial injections, and it was not long before the fledgling nation

was rather dependent on ‘the home country’, as much because it became much easier to rely on these credits than to seek alternative markets.

Concerning the opportunities for New Zealand as it moved forward, Szirtes’s conclusions might also be relevant for the contemporary situation: “...with the growing population ... the idea of *old home* will fade, and the population of uncultivated lands can also not last forever; ... and there will be no invisible England looking after the three islands...” (Ibid, p.638) New Zealand became a fully independent nation in 1947 when the 1931 Statute of Westminster was ratified. The country’s reliance on the UK as an economic market was first questioned in 1961 when the UK applied to join the European Economic Community (EEC). By the 1980s it had become obvious that the UK only reluctantly wishes to intercede on New Zealand’s behalf in export access to Europe, as is discussed in the subsequent sections in more detail.

Coming back to Szirtes’s analysis the author spoke finally about the “dream of New Zealanders of great fantasy” to make New Zealand a significant power amongst the surrounding Pacific islands. Concerning its contemporary relevance this fantasy might be declared a reality today, with New Zealand being a leader in many areas of the Pacific, like the Pacific Forum process, the Regional Assistance Mission to Solomon Islands (RAMSI) and other aid and development initiatives.

Comparing the developments of New Zealand until the end of the 1970s with the main characteristics of small states according to traditional Small State Theory of the 1960s-70s (Chapter 2) it can be seen that New Zealand in fact displayed the features of most small states of that time. From a foreign political and security point of view, the country

supported the foreign policy interests of the UK (in particular entry into World War I and II), and, after signing the ANZUS Treaty in 1951⁹ the interests of the United States as well (especially, New Zealand's debated participation in the actions against North Korea and North Vietnam). In return, New Zealand enjoyed the security of being under the protection of its stronger allies. The country also avoided any confrontation with or alienation from these more powerful states until 1984 (see more details in the next section). In addition to supporting the UK's interests, New Zealand's international activity focused primarily on the Pacific region, although it did also join numerous multilateral organisations as a means of providing support to the strengthening of international norms and security.¹⁰

⁹ Originally, a full three-way defence pact was signed between New Zealand, Australia, and the USA. After New Zealand had refused the visiting rights for nuclear-armed or nuclear-powered ships of the U.S. Navy in New Zealand ports in 1984, the USA considered its ANZUS obligations towards New Zealand as invalid. Today the treaty applies just between the United States and Australia, and between New Zealand and Australia separately, but not between the USA and New Zealand. See more under Sir Keith Sinclair: History of New Zealand, KBE Penguin Books, New Zealand 1991

¹⁰ ANZUS, Asia Pacific Economic Co-operation (APEC), Asian Development Bank (AsDB), Association of Southeast Asian Nations (ASEAN) (dialogue partner), Australia Group, Commonwealth, Customs Cooperation Council (CCC), European Bank of Reconstruction and Development (EBRD), Economic and Social Commission for Asia and the Pacific (ESCAP), Food and Agriculture Organisation (FAO), International Atomic Energy Agency (IAEA), International Bank for Reconstruction and Development (IBRD), International Civil Aviation Organisation (ICAO), International Confederation of Free Trade Unions (ICFTU), International Red Cross and Red Crescent Movement (ICRM), International Development Association (IDA), International Fund for Agricultural Development (IFAD), International Finance Corporation (IFC), International Federation of Red Cross and Red Crescent Societies (IFRCS), International Hydrographic Organisation (IHO), International Labour Organisation (ILO), International Monetary Fund (IMF), International Maritime Organisation (IMO), International Maritime Satellite Organisation (INMARSAT), International Telecommunications Satellite Organisation (INTELSAT), International Criminal Police Organisation (INTERPOL), Intergovernmental Oceanographic Commission (IOC), International Organisation for Migration (IOM) (observer), International Organisation for Standardisation (ISO), International Telecommunications Union (ITU), Non Aligned Movement (NAM), Organisation for Economic Cooperation and Development (OECD), Organisation for the Prohibition of Chemical Weapons (OPCW), Pacific Island Forum (PIF), Permanent Court of Arbitration (PCA), Secretariat Pacific Community (SPC), South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA), United Nations (UN), United Nations Mission in Sierra Leone (UNAMSIL), United Nations Conference on Trade and Development (UNCTAD), United Nations Educational, Scientific and Cultural Organisation (UNESCO), United Nations Industrial Development Organisation (UNIDO), United Nations Interim Administration Mission in Kosovo (UNMIK), United Nations Transitional Administration in East Timor (UNTAET), United Nations Truce Supervision Organisation (UNTSO), Universal Postal Union (UPU), World Federation of Trade Unions (WFTU), World Health Organisation (WHO), World Heritage Committee, World Intellectual Property Organisation (WIPO), World Meteorological Organisation (WMO), World Trade Organisation (WTO),

Source: <http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029394365&a=KCountryProfile&aid=1019041559387>, accessed: 21/09/2007

From an economic point of view, New Zealand also displayed the main characteristics of small states, in that it was heavily dependent on external trade with the UK and Australia as the main trading partners. New Zealand's export commodities were also largely homogenous, all coming from the country's agricultural industry, and comprising mainly of meat, dairy products, and fruit. Although the UK could have received these products from the much closer European region, New Zealand had a comparative advantage due to seasonal differences between the Northern and Southern hemisphere and also due to its special trade arrangements with the UK.

While New Zealand as a small country enjoyed the benefits of being the UK's 'cheap pantry' (or alternatively, the nicer sounding 'flower garden'), by securing these political and trading rights for its first hundred years of existence both this convenient relationship and the correspondingly neglected business relations with other parts of the world caused a deterioration and limitation to the natural development of the small Pacific nation. The disadvantages of poor product diversification, the sole focus on the UK market (ca. 80% of all exports) and the lack of international competition on the UK market through secured contingents first became noticeable in 1961 when the UK launched its application to join the European Economic Community, the predecessor of the EU. (Source: <http://www.delaus.ec.europa.eu/newzealand...>) Public perception about the real economic situation supported by the rather limited media coverage, was very positive in New Zealand and this optimism lasted until the economic crisis of the early seventies.

New Zealand's political elite, however, soon became aware of the danger that faced New Zealand if it lost the lucrative UK market, and the country's first Ambassador to Brussels and to the European Commission was quickly accredited in 1961 to initiate a dialogue with

the EEC. If we refer back to the earlier critique of Small State Theory, this development shows clearly that the foreign policy of a small state is not constant over time, but alters according to new foreign political constellations in order to continue to safeguard the national political interests, and in this case, especially New Zealand's export goals.

4.2.2 'Butter Battles' between the 1970s and 1990s

The UK's EEC accession in 1973 also marked the beginning of a new area for New Zealand. An important question was how New Zealand's preferential treatment, similar to that of other Commonwealth countries, could be transferred to the EEC.

“In the end, butter and cheese quotas and tariffs were established that secured access into the EEC for New Zealand dairy products equal to 71% of the current exports (milk equivalents). Prices received by New Zealand exporters were above world price levels, and hence earned quota rents for the New Zealand dairy industry. Such quotas are also the tools of politicians however, and they proved to be continually renegotiated, often with reduced tariffs offered as the trade-off to reductions in quota volumes.” (Rae et al., 2006, p. 4)

Thus there was an urgent need for New Zealand to become more regularly engaged with the decision-making bodies of the European Community. There was an urgent need for New Zealand to become more regularly engaged with the decision-making bodies of the then Community. Since 1975 this engagement consisted of various informal and flexible meetings between the New Zealand Foreign Minister, the European Commissioner responsible for External Relations and the Foreign Minister of the presiding EC member state during each presidency, during which they would discuss the state of relationships, concerns and interest of the parties. While New Zealand's preferential treatment built a key cornerstone in the re-negotiations of the UK's entry into the EC, in 1988, however, the UK declared that it was “no longer prepared to battle in the Council of Ministers for New Zealand quotas” (Barber, 1988, p.1), and as a result, the pragmatic outcomes of these ‘informal’ meetings became less favourable to New Zealand. Although “twenty per cent of New Zealand's exports still went to Europe in 1990, (...) their value had halved since the

late 1960s considering inflation, and the downward trend seemed to be continuing.”
(Gibbons and Holland, 2006, p.3)

At the same time, as the ‘Butter Battle’ against the European Community (EC) appeared to be lost and the ‘European fortress’ seemed to be impenetrable, the neighbourhood of the ‘fortress’ saw its iron curtains fall and behind them new, unsaturated markets were revealed. Despite the success of some more pioneering New Zealand agro-technology companies in Hungary, Poland, and Czechoslovakia in the 1980s and a range of potential opportunities in the Soviet Union, Romania and Bulgaria, the re-opening of the Central and Eastern European market after almost 40 years of isolation was generally met with apathy by New Zealand’s political and economic leaders, who seemed to think the market not worth the effort. (See more details under chapters 7 and 8 on the development of relationships between New Zealand and Hungary.)

Although more favourable figures were recorded in some other areas in Western Europe (growing two-way tourist numbers between Europe and New Zealand, for example, or the growing export of manufactured products), New Zealand embassies in Greece (1990) and Austria (1991) were closed and the country’s trade representation in Europe were either downsized or closed by Trade New Zealand (TRADENZ). As the interviews conducted with ex-trade and diplomatic representatives within the frame of this research revealed, there was a discrepancy between the evaluation of the market potential on the European continent back in New Zealand, and by those New Zealand officials and entrepreneurs who spent several years not just in Western but also in Central and Eastern Europe. (See Chapter 7 and Chapter 11 for more detail.)

This once again highlights the inaccuracy of the Small State Theory assumption that the foreign policy of a small state is constant over time. Due to the new global political and economic settings, New Zealand policy-makers changed the course of the country's foreign policy towards Central and Eastern European countries as well by withdrawing trade representatives from the region. Whether this decision was a wise one, however, is an entirely different matter (see Chapter 7 and 11 for further detail).

For New Zealand, the two most important Europe-related events of the 1990s were the establishment of the Single European Market in 1993 and one year later the GATT negotiations of the Uruguay Round. While the former made exports to different European countries easier and cheaper through the use of common regulations and the removal of many trade barriers, the main success for New Zealand at the Uruguay Round was the rise of its butter quota to 76,667 tonnes; a level which equalled that of its quota from the mid-1980s, and the reduction of EU protectionism more generally. (Gibbons and Holland, 2006, p.4) According to the assessment of the 1995 - 2005 decade by the New Zealand Ministry of Agriculture and Forestry and the Ministry of Foreign Affairs and Trade, an increase in dairy returns to the value of NZ\$4.5 billion and in sheep meat exports to the value of NZ\$1.46 billion were the ultimate results of the Uruguay Agreement. (Ministry of Agriculture and Forestry, 2005) These figures underline the enormous importance of multilateral organisations for small countries like New Zealand to protect their interests. In addition to the economic benefits, there were also positive diplomacy-psychological advantages gained from these new agreements. Due to the seemingly endless negotiations between New Zealand and EC diplomats during the 1980s, relations between the two became rather strained. Links in other areas such as science and tourism, however, developed quite positively in the 1990s, largely because the internationalisation of

problems through multilateral organisations meant that there was less overall negative impact on bilateral relationships. Table 4.1 summarises the most important agreements between the EU and New Zealand until 2007 (see more details under section 4.2.3: Development of Political and Economic Relations in the New Century).

Table 4.1: EU-New Zealand Key Agreements and Exchange of Letters until 2007

EU / New Zealand Key Agreements / Exchanges of Letters	
2007	The European Union and New Zealand Joint Declaration on Relations and Cooperation
2006	Butter Agreement
	Horizontal Agreement on Air Transport
2004	NZ/EU Action Plan: Priorities for Future Cooperation
1999	Joint Declaration on relations between the European Union and New Zealand.
1998	Agreement on Mutual Recognition in relation to Conformity Assessment, Certification and Markings between the European Community and New Zealand.
1997	Agreement between the European Community and New Zealand on sanitary measures applicable to trade in live animals and animal products.
1995	Conclusion of negotiations between the European Community and New Zealand under Article XXIV:6.
1991	Arrangement between the Commission of the European Communities and the Government of New Zealand for cooperation in Science and Technology.
1984	Conclusion of an Agreement in the form of an exchange of letters between the EEC and the government of New Zealand amending the Joint discipline Arrangement between New Zealand and the Community concerning cheese.
1980	Conclusion of voluntary restraint Agreements with New Zealand in the sheepmeat and goatmeat sector.
1973	Extract from Accession Documents relating to the UK and butter and cheese from New Zealand.

Drawn from: http://www.delais.ec.europa.eu/newzealand/EU_NZ_relations/politicalrelations.htm, and http://www.delais.ec.europa.eu/newzealand/Whats_New/butter.htm, accessed on 15/03/2007

At the same time as launching a new phase in its European foreign policy, New Zealand also earned itself an international reputation through its protests concerning nuclear tests in the Pacific Region from 1972 onwards, thus challenging its diplomatic relations with the UK and particularly with France (Figure 4.1).¹¹

Figure 4.1: New Zealand Ship Vega Sailing from Manzanillo on Her Third Voyage to the French Nuclear Test Site, 1973



Source: <http://www.greenpeace.org/new-zealand/about/greenpeace-nz-history>
accessed: 22/04/2006

By standing up to France and the other European nuclear powers, New Zealand showed to the world that it was not afraid of alienating more powerful states in order to safeguard the national interest. Another example of this audacity can be seen in New Zealand's refusal in 1985 to allow the USA to use New Zealand ports or enter New Zealand waters with nuclear powered or nuclear-armed ships, as discussed previously. In response, the United States suspended its ANZUS obligations to New Zealand. The effects of this rather brave policy have been twofold: New Zealand gained international recognition and support on

¹¹ Sinking of the Greenpeace boat 'Rainbow Warriors' by French Secret Service in Auckland harbour on the 10th July 1985 made also international publicity for New Zealand as the country was supporting the anti-nuclear movement of the international Greenpeace organisation.

the one hand, while on the other, in 2006 US trade officials refused to enter into negotiations regarding the possibility of a free trade deal with New Zealand as long as the country continued to keep its ports closed to US nuclear ships. (Moran, 2002) These examples demonstrate that although it is militarily and economically small, a country like New Zealand is prepared to risk good relations with stronger powers, and will find alternative means to try and impose their preferences.

During this period, as economic and political developments in the former Eastern Bloc countries in Europe accelerated positively and most of the new states launched their applications for EU membership, the vision of an enlarged Europe became more realistic. It also became obvious for New Zealand that its relations with the EU should be both broadened and deepened if New Zealand did not want to vanish in the melting pot of 'other third countries', and lose its hard-earned privileges. To increase the level and dimensions of the EU-New Zealand relationship, the Australasian country initiated the development of a legally non-binding but comprehensive Joint Declaration between the two parties, the first of which was signed in Strasbourg on 4 May 1999. (Gibbons and Holland, 2006, p.4) The main achievement of the Joint Declaration was that it increased the degree of relations between the partners from merely being bilateral trading interests to other areas of international significance, like scientific research, development assistance, global environmental issues, and trade and investment liberalisation. The Declaration also allowed for New Zealand to appear not merely as a small country claiming some attention and allowances from a large one, but rather as an experienced, acknowledged and reliable diplomatic partner for the EU in the Asia-Pacific region.

Summarising the development of New Zealand's foreign policy during the 1990s then, it can be seen that it did not entirely display the main characteristics of small states as

defined in traditional Small State Theory. In its foreign trade relations, it slowly began to move towards the newer European markets, although the country's main export commodity remained quite homogenous. The major divergence from the assumptions of traditional small state behaviour, however, occurred in New Zealand's more independent foreign security policy.

4.2.3 Development of Political and Economic Relations in the New Century

After signing the Joint Declaration in 1999, relations on different levels began to develop markedly between New Zealand and the EU. In 2002, a representative of the New Zealand Ministry of Research, Science, and Technology was sent to Brussels to support New Zealand's participation in the EU's Research Framework Programmes 6 and 7. Three years later the Ministry of Education decided to promote New Zealand as an excellent educational centre by posting a direct representative to Brussels.

One of the most important political events in recent memory, and one which had far reaching impacts for New Zealand as well, was the enlargement of the EU to include ten new member states in 2004. As this event drew closer, the number of studies conducted in New Zealand on the previously neglected Central and Eastern European countries grew, particularly those which assessed the possible negative impacts that the event might have on New Zealand's agricultural exports (eg. McMahon, 1990; Saunders, 2000 and 2002; NZ Institute of Economic Research 2001; McMillan, 2003; Patten, 2003; Petrovic and Barrer, 2003; O'Sullivan, 2003; Ockelford, 2004; Gibbons, 2005). The results of these studies suggested that the potential risks might be caused not so much by direct trading competition from the new Member States, but rather by the existing low level of New Zealand diplomatic (and other) connections with these new states. In an effort to

counterbalance this possibly negative development, New Zealand opened an embassy in Poland in 2005. It remains unclear, though, whether this new posting was intended to be New Zealand's first or last step in fostering relations with the ten new EU Member States. (Chapters 9 and 10 will address in greater detail the impacts of this 2004 EU enlargement on Hungary-New Zealand relations.)

A further step taken to attract the enlarged EU's attention towards New Zealand was the development of a more comprehensive and detailed document using the 1999 Joint Declaration as its basis: in 2004, New Zealand and the EU signed an agreement on their "Priorities for Future Cooperation". This document identified and extended the fields of mutual interest for the two partners, and their intended co-operation on global issues like regional (Pacific) and global security, environment, fisheries, people-to-people and parliamentary relations. (Gibbons and Holland, 2006, p.15), Within the framework of the EU's Pacific development policy in 2006 ("EU Relations with the Pacific Islands – a Strategy for a Strengthened Partnership") New Zealand was given a unique opportunity to present itself as strategic partner for the EU in the Pacific region.

The 1999 "Joint Declaration" as well as the 2004 "Action plan" have been combined and replaced by the "Joint Declaration on Relations and Cooperation between the European Union and New Zealand" on 21st September 2007. The parties expressed their desire to "[c]onsolidate as well as to broaden and deepen the overall framework of their relationship with a view to extending the already established cooperation further into the future." (Joint Declaration, 2007, p.2) By doing so the following priority areas have been identified: global and regional security, counter-terrorism and human rights; movement of people; development cooperation; trade and economic cooperation; science, technology and

innovation; education and professional exchanges; environment and climate change; fisheries; transport as well as strengthening people-to-people links and outreach activities. While the parties will monitor the progress in implementing the declaration regularly, a comprehensive review of achievements should take place in 2012. (Ibid, p. 16)

New Zealand's present consultation mechanisms with the EU can be divided into four main groups:

1. Regular EU-New Zealand Ministerial Troika Consultations take place in the capital of the EU Member State holding the Presidency. These meetings deal largely with international issues that fall under the EU's Common Foreign and Security Policy (CFSP).
2. Annual EC-New Zealand Senior Officials Meetings (SOM) which alternate between Brussels and Wellington. The last SOM was held on 5 March 2007 in Wellington.
3. Other regular meetings, dealing with specific policy issues including: EC-New Zealand Agricultural Trade Talks; the EC-New Zealand Fisheries Dialogues; EC-New Zealand Joint Science & Technology Cooperation Meetings and the EU-New Zealand Veterinary Agreement Joint Management Committee.
4. Inter-parliamentary visits take place approximately every 12 to 18 months with alternating visits between the European Parliament's Australia/New Zealand Delegation and the New Zealand Parliament.

(http://ec.europa.eu/external_relations/new_zealand...)

From New Zealand's point of view, the ministerial consultations with the EU Presidency and the annual Agricultural Trade Policy Consultations are especially important. As the

New Zealand Ministry of Foreign Affairs has noted, “[t]here is also an established practice of direct contact with Commission and Member State officials and, as necessary, Ministers and European Union Commissioners, particularly to address bilateral issues as they arise.” (Ministry of Foreign Affairs and Trade, 2006)

Table 4.2 summarises the most important visits between New Zealand and the EU between 1999 and June 2007. It is clear from this chart that of the personnel responsible for executing New Zealand’s EU policy, the Hon. Phil Goff is the key person when dealing with the EU, followed more recently by the Rt Hon Winston Peters. The clear importance of these two individuals arguably proves the previously discussed theoretical assumption regarding the importance of a human determinant (people-to-people relationships) for a small state’s successful foreign policy conduct. Upon the request of the New Zealand Government, the Commission of the EU opened a Delegation Office in Wellington in 2004. This was a further important step in fostering the relationship between New Zealand and the EU.

In summary then, it can be said that in the 21st century, New Zealand managed to develop an EU policy that was very much separate from the UK, and one which recognised the importance and value of closer relations with the EU. At the same time, New Zealand’s preferential access into the EU remained unique for a developed country. A further important feature of these diplomatic developments were that this EU policy was implemented across different sectors and thus exercised positive impacts on trade, research, education, immigration, security and protection of environment, just to name a few. Returning again to the key assumptions of traditional Small State Theory regarding a foreign policy-driven domestic policy, it is evident from the discussed examples that New Zealand has instead followed a rather domestic interest-driven foreign policy.

Table 4.2: Diplomatic Visits between New Zealand and the EU (1999-June 2007)

NEW ZEALAND MINISTERIAL VISITS TO EUROPEAN UNION		
Hon Steve Maharey	Minister of Research, Science and Technology	March 2007
Hon Phil Goff	Minister of Trade, of Defence, and of Disarmament and Arms Control	January 2007
	Minister of Foreign Affairs	
Rt Hon Winston Peters	Minister of Foreign Affairs	September 2006
Rt Hon Winston Peters	Minister of Trade and of Defence	April 2006
Hon Phil Goff	Prime Minister	February 2006
Rt Hon Helen Clark	Minister of Foreign Affairs	November 2005
Rt Hon Winston Peters	Minister of Foreign Affairs & Trade	November 2005
Hon Phil Goff		February 2005
Hon Jim Sutton	Minister for Trade Negotiations	January 2005
Hon Phil Goff	Minister of Foreign Affairs & Trade	September 2004
Hon Phil Goff	Minister of Foreign Affairs & Trade	April 2004
Hon Judith Tizard	Minister of Consumer Affairs	April 2004
Hon Trevor Mallard	Minister of Education	October 2003
Hon Phil Goff	Minister of Foreign Affairs & Trade	September 2003
Hon Pete Hodgson	Minister of Research, Science and Technology	June 2003
Hon Phil Goff	Minister of Foreign Affairs & Trade	May 2003
Rt Hon Helen Clark	Prime Minister	April 2003
Hon Phil Goff	Minister of Foreign Affairs & Trade	September 2002
Hon Phil Goff	Minister of Foreign Affairs & Trade	May 2002
Hon Jim Sutton	Minister for Trade Negotiations	May 2002
Hon Phil Goff	Minister of Foreign Affairs & Trade	September 2001
Hon Phil Goff	Minister of Foreign Affairs & Trade	May 2001
Hon Phil Goff	Minister of Foreign Affairs & Trade	May 2000
Rt Hon Don McKinnon	Minister of Foreign Affairs & Trade	May 1999
EUROPEAN UNION VISITS TO NEW ZEALAND		
Benita Ferrero-Waldner	EU Commissioner for External Relations and Neighbourhood Policy	June 2007
EU Parliamentarians		March 2006
Mariann Fischer-Boel	Agricultural Commissioner	March 2006
Pascal Lamy	Trade Commissioner	September 2004
Poul Nielson	Development Commissioner	Jan/Feb 2004
Chris Patten	Commissioner External Relations	April 2003
EU Parliamentarians		February 2003
Poul Nielson	Development Commissioner	October 2002
Pascal Lamy	Trade Commissioner	May 2002
EU Parliamentarians		March 2000

Source: Ministry of Foreign Affairs and Trade, Europe Division: European Union Information Paper, 2006, <http://www.mfat.govt.nz/Countries/Europe/European-Union.php#visits>

In the case at hand, export and import figures indicate that in the new century the EU became New Zealand's second largest trading partner after Australia. While 29.2% of all New Zealand imports came from, and 19.0% of all exports went to Australia, 16.6% of all imports and 15.9% of all exports were traded with the enlarged EU in 2005. (European Commission, 2005, p.4) According to a study by Gibbons (2006), with a 22% share of total exports, the EU was the single biggest market for New Zealand agricultural products: "The EU25 were New Zealand's most important market for sheep meat, fruit and vegetables, wool, fish, hides, skin and leather, wine and venison." (Gibbons and Holland, 2006, p. 6) Further sectors of growing importance were communications, insurance and business services (especially legal). The most important trade figures between New Zealand and the EU from the period 2004-2006 are summarised in Table 4.3.

The EU has also become the second largest source of tourists to New Zealand (462,000 in 2004), (Ministry of Foreign Affairs and Trade, 2006) and is an important source of immigration. To enhance the growing importance of the tourism sector a Horizontal Agreement on Air Transport was signed in 2006 which allows European airlines to fly between New Zealand and any EU Member State.

By 2006, there had also been progress in the perennial butter question. The most important achievements had been the division of import licenses for the New Zealand butter quota of 77,402 tonnes between traditional importers and newcomers, and the 19.43 % reduction of butter tariff from €86.88 per 100kg to €70 per 100kg. (http://www.delaus.ec.europa.eu/newzealand/Whats_New/butter.htm)

Table 4.3: Bilateral Trade between New Zealand and the EU (2004-2006)

New Zealand exports to EU-25: June years (NZ\$000 FOB)					
Code	Description	2004	2005	2006(P)	% change
0204	Sheep meat	1,405,408	1,502,305	1,451,854	-3
0810	Fresh fruit, nes	310,839	297,478	287,679	-3
5101	Wool	314,784	290,514	278,754	-5
8802	Aircraft	44,524	28,478	283,821	898
0405	Butter	388,723	230,360	233,753	1
0808	Apples	325,937	278,054	207,483	-25
2204	Wine	142,857	197,887	204,188	3
0208	Venison	138,481	158,894	176,253	11
4104	Leather of bovine	122,870	113,460	129,688	14
3501	Casein	127,724	95,838	126,487	32
0406	Cheese	139,086	110,657	112,785	2
0304	Fish fillets	74,201	83,799	88,398	3
7801	Aluminium; unwrought	75,787	67,249	84,328	25
0307	Molluscs	97,564	108,651	78,010	-27
0303	Frozen fish	68,536	58,450	65,792	17
0404	Whey and products	8,644	36,867	54,098	47
0703	Onions	55,079	33,212	47,427	43
1209	Seeds, for sowing	37,933	43,451	46,761	8
3502	Albumins	42,375	37,807	42,526	12
8479	Machinery; nes	4,686	27,057	30,100	11
Top 20 subtotal		3,926,018	3,794,448	4,006,145	6
NZ's total exports to EU – 25		4,996,704	4,830,442	5,045,699	4
Top 20 as % of total exports to EU – 25		79	79	79	

Source: Statistics New Zealand: New Zealand External Trade Statistics, June 2006, www.stats.govt.nz/externaltrade

New Zealand imports from EU-25: June years (NZ\$000 CIF)					
Code	Description	2004	2005	2006(P)	% change
8703	Motor vehicles	791,442	821,966	735,192	-11
3004	Medicaments	304,823	352,158	405,738	15
8802	Aircraft	588,699	294,756	333,016	13
8701	Tractors	180,082	220,972	191,083	-14
8704	Trucks and vans	150,086	139,542	135,278	-3
8901	Cruise ships, ferry-boats, etc	2,517	0	114,194	
4810	Paper and paperboard	92,828	105,282	90,560	-14
8422	Dish washing machines	60,347	57,630	80,110	39
8517	Telephone equipment	74,605	109,769	78,478	-29
8708	Motor vehicles; parts	71,540	75,799	72,669	-4
9018	Medical or veterinary instruments	60,710	66,973	69,312	3
8433	Harvesting machinery	59,550	60,526	66,466	10
3808	Insecticides	47,712	52,327	65,877	26
8481	Taps, cocks, valves etc	60,201	65,274	62,000	-5
2106	Food preparations	29,379	42,744	61,754	44
9021	Orthopaedic appliances	49,614	50,241	58,150	16
8443	Printing machinery	51,027	74,170	57,316	-23
8429	Bulldozers, graders, etc	41,102	43,026	55,271	28
3002	Animal blood, vaccines and toxins	28,817	63,388	51,748	-18
8413	Pumps	48,568	51,137	51,565	1
Top 20 subtotal		2,743,609	2,747,680	2,835,767	3
NZ's total imports to EU – 25		6,682,733	6,939,781	6,870,279	-1
Top 20 as % of total imports from EU – 25		41	40	41	

Source: Statistics New Zealand: New Zealand External Trade Statistics, June 2006
www.stats.govt.nz/externaltrade

4.2.4 The European Union and New Zealand – New Perspectives

Benita Ferrero-Waldner, European Commissioner for External Relations and European Neighbourhood Policy recently identified three main areas of special importance for the EU in its cooperation with New Zealand (Ferrero-Waldner, 2007):

- Boosting trade and investment;
- Improving security in the Pacific region; and,
- Tackling the global issues of energy security and climate change.

In the first of these areas, the EU's negotiations with a number of Pacific Island countries towards the establishment of an Economic Partnership Agreement are similar to those initiatives by New Zealand and Australia towards free trade agreements in the context of the Pacific Agreement on Closer Economic Relations (PACER). As Ferrero-Waldner noted in her speech, “[t]rade is a powerful tool for combating poverty and we must do everything we can to ensure that the Pacific reaps as much benefit as possible from increased world trade.” (Ibid)

Economic development is also closely related to the goal of securing political stability in the Pacific region. For the EU, of particular importance are Fiji, East Timor, the Solomon Islands and Indonesia, and thus the coordination of peace-keeping and developmental efforts between the EU and New Zealand places New Zealand on a special global platform on these issues. A further long term opportunity of global importance for joint operation between the EU and New Zealand lies in promoting the idea of an international agreement on energy efficiency at multilateral forums. This is closely related with collaborative research efforts on renewable energies. The revision of the 2004 Joint Declaration in September 2007, “...should take the partnership to a new level and focusing on some of the key issues confronting us in the 21st century.” (Ibid)

Setting the recent developments of relations between New Zealand and the EU in context with the areas traditionally neglected by Small State Theory it is clear that global challenges, as well as human and domestic determinants have indeed contributed greatly to New Zealand's more successful EU policy.

4.3 High Level EU Relations – Low Level Publicity?

According to the previously displayed diplomatic data and economic figures, it can be said that New Zealand's political and economic actors involved in direct relations with the EU have acknowledged the necessity of deepening and broadening the relationship between New Zealand and the EU. In terms of the development of relations between different countries or groups of countries, it cannot, however, be assumed that diplomatic and trade relations alone are sufficient for fostering these developments. Equally valuable are people-to-people relations between the different nations shaped by individual experiences with people from the other country. Tourism, cultural and scientific exchanges and working holiday programmes may therefore have a positive impact on the mutual recognition of each others' interests, as well as at international multilateral forums.

The image that we have about something, however, is not only influenced by our own actual experiences, but is also influenced to a great extent by the information that we obtain elsewhere. This information can influence our connection to a particular person or country, or the way that we encourage or discourage somebody in their relationships. Because the majority of people rely on the media for this alternative information, particularly the television news media, newspapers and the internet, these media play a unique role in influencing relations between peoples and countries. Returning to the question of the development of relations between New Zealand and the EU, it is of critical

importance to understand how the EU is represented and perceived in New Zealand – and how New Zealand is perceived in the EU in general.

The first and most comprehensive study on the New Zealand perceptions of the EU was conducted in 2003 by Martin Holland, Natalia Chaban and Maureen Benson-Rea, with the title “*External Perceptions of the European Union: A Survey of New Zealanders’ Perceptions and Attitudes towards the European Union*”. This project was followed in 2004 by a three year comprehensive and transnational project entitled “Public, Elite and Media perceptions of the EU in Asia Pacific Region: Australia, New Zealand, South Korea and Thailand: a comparative study” which compared the perceptions of New Zealand towards the EU with those of its neighbours in the Asia Pacific region. The findings from these projects once again highlighted the discrepancy between the actual importance of the EU for New Zealand and the lack of priority that this has been given. In particular, Chaban’s study revealed a low level of news media information about the EU, and particularly about the new EU Member States. When information did appear, it concentrated primarily on topics relating to trade barriers or trade opportunities for New Zealand in the EU.

According to a public perception survey conducted in December 2004 as part of Chaban and Holland’s larger trans-national project, the EU was only ranked as New Zealand’s sixth most important partner (12% of all responses), well behind the most important Australia (78%), USA (31%), Asia (31%), UK (26%) and China (21.5%). (Chaban and Holland, 2005, p.13) The future importance of the EU for New Zealand received a slightly higher score, ranking in 3rd place behind the first-ranked China and the second, the UK. The EU was perceived by New Zealanders more as an economic entity or diplomatic

alliance and less as a group of countries sharing common cultural-historical heritage and shared political structure. (Ibid, p.31)

Knowledge amongst the New Zealand public about the EU enlargement, especially about the new Member States was nearly non-existent, and this is perhaps not unsurprising when the results of the media survey conducted during 2004 are examined. This survey revealed a “[r]elatively high volume of EU news in newspapers and a *very* low level of EU news on primetime television news.(...)The low visibility of the EU in the primetime television news (...) arguably contributed to the lower ratings assigned by the public to the EU’s importance.” (Ibid, p. 45) Interviews conducted with New Zealand’s political and business elites in 2005 also expressed the opinion that both the domestic press and national television news were “heavily influenced by the British media” and were “not really of an international standard.” (Holland, *et al.*, 2005, p. 18) In general the New Zealand political, business and diplomatic elite had a great deal more knowledge and awareness of EU related issues than did the public and attributed much more importance to the EU’s role for New Zealand, than did public opinion.

In light of the key role that the media can play in influencing public opinion, as well as the increasing economic and political relevance of the EU for New Zealand, it was interesting to enquire whether there had been any development in the media coverage of the EU since 2004 when the original large-scale study was conducted. Although a similarly scaled investigation was not possible within the scope of this doctoral research, a smaller study was undertaken which focused solely on the EU coverage by the same five leading New Zealand newspapers in Chaban’s 2004 project: *The New Zealand Herald*, *The Waikato Times*, *The Dominion Post*, *the Press* and *The Otago Daily Times*.

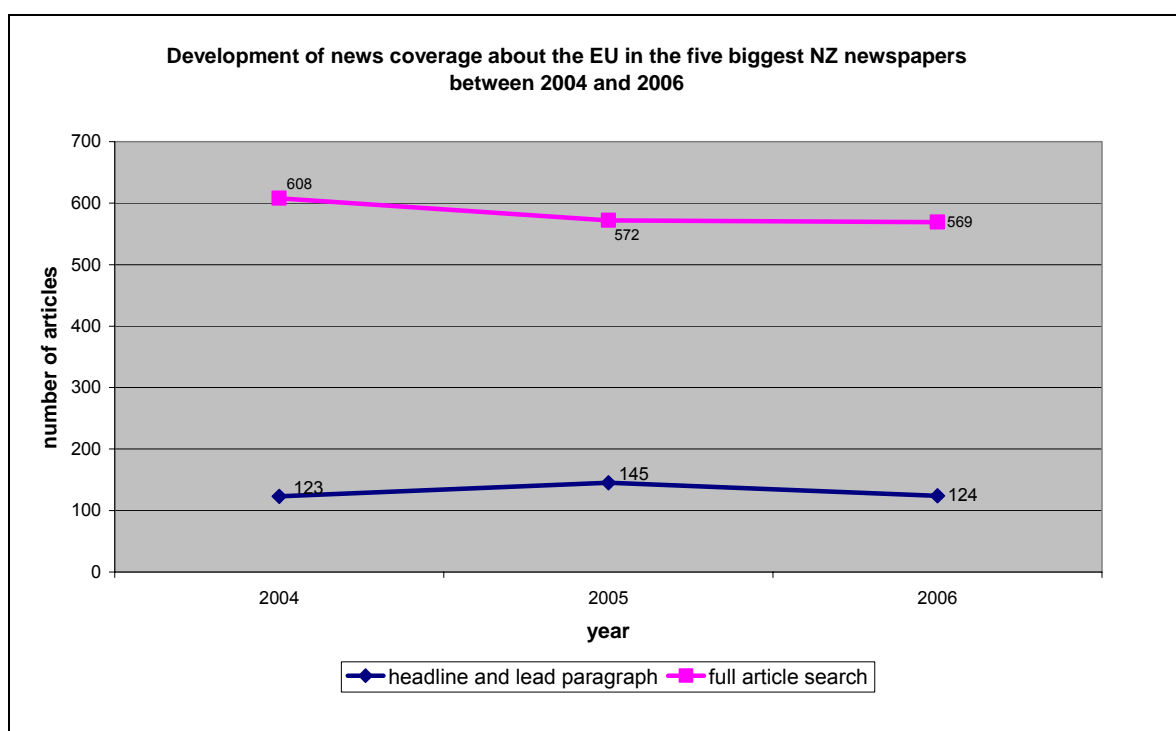
In this parallel study, the news media coverage of the EU was examined during the period from 2004 to 2006. Considering the time restrictions and trying to best use the available resources, the search engine Factiva was used as the data source.¹² Two different searches were undertaken across the three years for the five newspapers. The first search included articles where the phrases 'EU' or 'European Union' were mentioned at least once in the entire article, covering all possible topics. This type of search produced a maximum number of articles on EU related issues of any kind. The second search was run including articles where the phrases 'EU' or 'European Union' were mentioned only in the headline or/and in the lead paragraph, using the assumption that such articles would be of particularly heightened EU relevance. Excluded from the searches in both cases were recurring pricing data and market data, obituaries, sports, and calendars. Figure 4.2 illustrates the findings for the period between 2004 and 2006.

As mentioned above, in light of the positive developments in diplomacy and trade, and the intensified relations in different areas between the EU and New Zealand, the assumption was that there would also be a steady rise in EU-related news items. However, as can be seen in Figure 4.2 there has in fact been a slight decrease in the number of articles since 2004. Although the number of articles identified by Factiva is somewhat less (ca. 5-10%) than the actual number of published news in the different newspapers, the data displayed above does provide a good indication of the coverage trends during these years. Further, it should also be noted that there is a significant difference between the numbers of articles mentioning the EU at least once anywhere in the article and between those mentioning the EU in their headline or lead paragraph. On average only about 20% of all news items, which mention the EU can be considered as primarily EU-focused articles, with an average

¹² Within the scope of this thesis the use of Factiva can be justified with its relative wide data source, it does not provide a full dataset of all newspaper stories. For more comprehensive media studies on this the use of additional search engines as well as hard copies is recommended.

of 131 articles per year (11 articles per month across the five selected newspapers). Whether from the readers' point of view this coverage level can be considered satisfactory could well be the focus for further investigation (see suggestions for media education in Table 12.3, Chapter 12: Conclusion).

Figure 4.2: Development of the News Coverage about the EU in Five NZ Newspapers from 2004 to 2006



Of particular interest for this project were New Zealand perceptions and information on the 2004 EU enlargement. According to the interviews conducted within the project “EU in the Views of Asia-Pacific Elites”, in 2005 New Zealand’s elites evaluated EU enlargement as rather a positive opportunity rather than as a “threatening phenomenon” for New Zealand. On the other hand they also acknowledged having very few links to, and up-to-date information on, the new Member States, and many expressed concerns about the enlarged EU becoming too ‘Eurocentric’ at the cost of third countries. (Holland *et al.*, 2005, p.12) Establishing links with the new Member States was seen by the interviewees as an issue

that New Zealand should work on. (Ibid, p.12) Comparing the level of public knowledge about the EU enlargement with the information level of New Zealand's elites on the same topic, the former were much less informed: when asked, 78.3% of public respondents could not name any EU accession country from the 10 new Member States of 2004, and 16.1% of the remaining 21.7% named countries incorrectly! (Holland *et al.*, 2003, p.21) However, it is not just the weak media coverage of the EU that can be blamed for these unfavourable results. The role and level of the public education system in New Zealand may also need to be examined as it should at the very least provide people with a general working knowledge about important international actors and partners like the EU. Since the importance of EU as a cultural, diplomatic and trading partner for New Zealand appears to be undeniable, it is interesting to enquire why primary and secondary school students are not acquainted with the cultural heritage and key historical developments of the European continent through a formal curriculum. Even History and Geography at high school level in New Zealand are only optional subjects. (<http://nzcurriculum.tki.org.nz...>) Although no study could be found which would test New Zealand students' general knowledge and perception about the European continent at primary and secondary school levels, based on research results discussed earlier (see Chaban *et al.*) the assumption that students have limited information about historical and cultural aspect of the European continent seems to be valid. This assumption was backed up by several New Zealanders living in Hungary, who expressed their concerns in this regard during a survey conducted as part of this thesis in 2005. Some New Zealand families had considered returning to New Zealand after a couple of years of 'overseas experience', however, they perceived that the level and range of subjects taught in Hungary at a primary and secondary were higher than those available in New Zealand, and decided to stay in Hungary at least until their children completed their high school education (see more details under Chapters 9 and 10). These

respondents also were of the opinion, based on their own experiences and on discussions with friends and relatives back in New Zealand, that subjects like Foreign Languages, History, Geography and Cultural Studies taught in Hungary better prepare their children for understanding the contemporary world than those subjects taught in New Zealand, where the educational focus was seen to be more introspective.

Attracting ‘kiwi’ families back from overseas is a much discussed immigration-political issue in New Zealand.¹³ The New Zealand Department of Labour launched a new website ‘New Zealand Now’ (<http://newzealandnow.info>) as part of its programme to attract New Zealanders back ‘home’. While most of the incentives this programme offers are of an economic nature, as the examples discussed indicate, education seems to play an important role in the emigration decision-making process, especially for expatriates with children. It might be well worth investigating these aspects further (see relevant suggestions in Table 12.3, Chapter 12: Conclusion)..

4.4 Summary

This chapter has reviewed the development of relations between New Zealand and the EU from their early roots until the end of 2007. Setting these findings into context with traditional Small State Theory, it has been found that until the 1970s, New Zealand commonly displayed the leading characteristics of ‘small states’ as theoretically defined. From the 1980s onwards, however, the country followed a more independent foreign policy especially in security questions even at the risk of alienating more powerful states such as France or the United States; a stance which is in stark contrast to the traditional

¹³ See e.g. ‘Expats in spotlight’: “The New Zealand Government’s plans to attract back some of its nearly half a million expats”, by Mary Fenwick, 14 June 2005, <http://209.85.173.104/search?q=cache:56FmYbP1oNEJ:www.nznewsuk.co.uk/news/%3FID%3D1482+attracting+back+kiwi+expatriates+to+New+Zealand&hl=en&ct=clnk&cd=1>, accessed: 21/09/2005

theoretical assumptions of Small State Theory. While New Zealand gradually perceived the importance of the European market from the 1990s, its export commodities remained very limited, and the country neglected Central and Eastern European countries as potential trading partners. Globalisation and worldwide problems induced New Zealand to reconsider its traditionally trade-oriented foreign policy, however, and by doing so New Zealand was successful in counterbalancing its relative smallness in some non-traditional areas, like peace-keeping in the Pacific, for which it earned an enhanced international reputation.

Signing the Joint Declaration with the EU in 1999 and its renewal in 2007 are important examples of the launch of a new Europe policy for New Zealand. On the other hand, however, there are clear discrepancies between the EU's importance for New Zealand and the public perception and knowledge of Europe. This chapter has shown that these divergences may also have implications for on the effectiveness of New Zealand's immigration policy to attract expatriates back from Europe.

Chapter 5

HUNGARY IN EUROPE – OUTSIDE THE EU

“Nam unius linguae uniusque moris regnum, imhecille et fragile est...”¹⁴

King Saint Stephen, first king of Hungary (975-1038)

5.1 Introduction

By joining the European Union on the 1st of May 2004 Hungary has become “officially recognised” as a European country. Commenting on this accession, Konrad has noted that:

...1.8–1.9 percent of the total population of the continent is Hungarian. One percent of the area and about two percent of the population – does that constitute too much or too little? Do Hungary and Hungarians in general mean anything in Europe and to Europeans? (Konrád – Vándor, 2004, p.1)

The answer to Konrad’s largely rhetorical questions is provided in a 15 page dossier (on the Hungarian Ministry of Foreign Affairs’ website} on Hungary’s thousand year old cultural-historical heritage and its present contribution to the EU in different areas covering science, innovation, arts, literature, music, sports, economy and security. One might be justified in wondering whether such an extensive justification of Hungary’s ‘Europeanness’ is necessary (or indeed appropriate) on a Government website. Are not all countries on the European continent ‘automatically’ recognised as European?

It would appear not: even as late as the 1990s, delegates within the EU were questioning whether the former Eastern Block countries were European at all, and these ‘concerns’ were not just expressed around the diplomatic tables but also in everyday life, causing much irritation among Central and Eastern Europeans when it came to interacting with their ‘real’ European counterparts from the West. This phenomenon was the result of

¹⁴ In English (*translated by thesis author*): ‘Weak is a single-language, single-custom country’. Szentpétery, Imre: *Scriptores Rerum Hungaricarum II*. Budapest. 1938. 619-627.

nearly half a century of non-transparency and a lack of adequate information on both sides of the Iron Curtain.

The goal of this chapter is to provide a short historical-political overview to better contextualise the contemporary Hungary and its interests in the EU. A thousand years of history would obviously require an entirely separate thesis to cover every small detail, so this thesis attempts instead to provide a synopsis of the main historical developments in Hungary in context with its relations with Europe. Chapter 5 therefore begins with an investigation of the special geopolitical location of Hungary; situated as it is, rather strategically between East and West, and the impacts of this on Hungary over the centuries. Special attention will be paid to the 1920 Treaty of Trianon after World War I, as the signing of this agreement reshaped Central and Eastern Europe in a way that contributed significantly to the events of World War II and the Cold War, and nurtured instability and hostile feelings amongst different ethnicities. This is followed by a short analysis of the era of ‘Hungarian Goulash Communism’, which was the breeding ground of the political and economic transition of the country in the 1980s and which enabled the initial connections with the then European Community. Finally, the political, economic and social developments of Hungary up until the country’s EU accession in 2004 will be discussed. Chapter 5 also seeks to reveal whether in the pre-accession period Hungary showed the characteristic features of small states in its interactions with the EU and whether the country succeeded in asserting its main interests during the 1980-2004 period.

5.2 Hungary between East and West until the 1960s

After the collapse of communism in the 1980s, Hungary posed a challenge to politicians, academics and members of the international public alike. There was a great deal of

uncertainty about where Hungary ‘belonged’ and how to classify it, and more specifically, about ‘where to put’ people from the former Eastern-Block countries. The personal experiences of the researcher provide an illuminating example of this confusion.

To obtain a Master Degree in European Studies in 1996 at a West-German university, candidates were required to be able to hold a conversation on European political issues in two European languages. Being amongst the first four East European students enrolled for the course from Poland, Hungary, Romania and Bosnia, we assumed that our mother tongue would be accepted as the first of these languages, and German could be used as our second. Additionally we all spoke Russian. It took nearly a year for the department to reach the decision that we would have to learn a 4th language as our current languages were not acknowledged as ‘European’. We decided to learn English as it was considered to be the next most important language in our countries after German, but unfortunately no English-language course was offered at the University because most German students already spoke it, so it remained a private challenge for everybody to learn the language to a sufficient level within one year.

The second incident of this nature occurred just a couple of weeks later during a cultural-historical country analysis course offered in German about different countries of the European Union. Coming from our fresh new democracies and led by our somewhat sentimental association of France with ‘Egalité, Fraternité, Liberté’, we enrolled in the course “French Studies” (Frankreichkunde). The course lecturer immediately started teaching in French, so we requested that, for the benefit of those not speaking French, the course be conducted in German, as the prospectus had announced.

The lecturer's response to this seemingly innocent request was: "Your countries cannot become real Europeans without speaking French, so I recommend you start learning it today." Our Polish colleague, who was speaking on our behalf revealed that we had just started to learn English as a 4th language and were unable to take on French, too. The conversation escalated into a debate about the importance of different languages in Europe the result of which was that although somewhat irritated, we shifted our enrolment the following week to "Spanish Studies", where speaking Spanish was not a prerequisite!

If such 'misunderstandings' as these were relatively common within Europe itself, it is therefore rather unsurprising that there is inadequate information about Hungary in New Zealand, on the other side of the world:

An average New Zealander put Hungary in to Eastern Europe instead of Central Europe... There is a lack of up-to-date information on Hungary: The way Hungary's historical background was taught in New Zealand and what New Zealand people know about Hungary deters many from Hungary (main information: Attila the Hun, Hungary as Nazi country during the World Wars and Hungary as a poor country under Soviet Communism oppression.)¹⁵

Who are these Hungarians then? Why does their language sound so very different to all other European languages? During their migration from near the Ural Mountains, the people who eventually settled in the Carpathian Basin around 895 mixed with numerous ethnicities, so rather than say who they are, it is perhaps easier to say who they are not: Hungarians are definitely not the immediate ascendants of Attila the Hun, whose tribes fled from China centuries earlier. (Obrusánszky, 2005) The only common feature between Hungarians and descendants of Attila the Hun is that they both tried to establish a state in the Carpathian Basin but only the *Magyars* – as they call themselves and their country even today – succeeded.

¹⁵ Written commentary of a participant in the survey conducted in 2005 in Hungary and New Zealand as background material for the present thesis. See more details under Chapter 7.

Hungary's integration into Europe stems back to the goals of its first monarch, King Saint Stephen (1000-1038) who received his crown from the Pope. Following his father's (Prince Géza) instructions, King Stephen's goal was to establish a country that was acknowledged by the existing Western states, and to achieve this he prohibited raids, allowed Hungarians to convert to Christianity, married Princess Gizella from Bavaria, and invited German and Italian knights and craftsmen to the country. "Weak is a single-language, single-custom country, so you should welcome the strangers" advised the King to his son when explaining how to rule the country. (Szentpétery, 1938, p. 619, author's translation)

Over the following centuries, the representatives of many cultures – some invited and some uninvited – came to Hungary and contributed to its development, including French, Germans, Jews, Italians, Slovaks, Serbs, Poles, Romanians, the Roma, and Turks. So, from its early roots, Hungary was a multilingual and multicultural society where people of different ethnicities learned to live together in peace (on the question of minorities, see Chapter 6.4 on Hungary's European Foreign Policy).

The country was also open to adopting new ideas: the ideas of the renaissance and later the reformation quickly found their followers in Hungary. The Castle von Buda (in modern Budapest) became the multilingual European cultural centre of the renaissance under King Matthias (1458-1490) and his Bibliotheca Corviniana was both famous and appreciated throughout the European continent. During King Matthias' reign, the first printing press in Hungary was established at Buda. King Matthias also introduced reforms in the army, in finance, and in the administration of the courts and the law. In financial affairs, a reform in the mode of taxation was introduced, while his enactments in judicial affairs earned him

the title, "The Just". King Matthias' reign was the last time that Hungary was undisputedly perceived both geographically, economically, culturally and militarily as a major power on the European continent.

The country lost its independence in 1526 as a result of the Turkish occupation and for the first time became a geographical buffer between East and West. The liberation from the Turks 150 years later by the Austrian powers resulted in Hungary's integration into the Austrian Empire – with some liberalisation in 1867 – until the end of World War I. During this time Hungary was turned from the Western border of the Ottoman Empire into the Eastern border of the Austrian Empire. The country's industrial development was undermined by the fact that both Empires were more interested in using Hungary as a cheap 'pantry' and they neither supported education nor technological development. The semi-liberalisations of the 'Ausgleich' (Settlement) between Hungary and the Austrian Empire in 1867 did enable a late cultural and economic development in Hungary, and although the country could not follow an independent foreign policy in the Austro-Hungarian Dual Monarchy, it was once more perceived in Europe as a significant country. While the 'Ausgleich' had some advantages for Hungary, other nationalities of the Austrian Empire still remained under oppression, a factor in their rebellion against Hungary after 1867.

World War I reshaped the European continent: it not only ended the Austrian-Hungarian Monarchy but it also enabled the emergence of new states with borders that often disregarded ethnic nationalities altogether. Being on the losing side of the War, the Treaty of Trianon in 1920 was disastrous for Hungary: it lost two-thirds of its territory including approximately 90% of its vast natural resources, industry, railways, and other

infrastructure. Although the historical Kingdom of Hungary within the Austrian – Hungarian Monarchy was an ethnically mixed territory and Trianon removed most of the non-Hungarian ethnicities from Hungary (which was evaluated rather by the designer of the treaty than by Hungary as a positive outcome), the reality was that the country lost also one third of its native Hungarian population (Figure 5.1). As one scholar has noted of the treaty, “[b]eyond doubt the Treaty of Trianon was the most severe of all the post-war treaties. Its territorial impositions, disregarding the ethnic or linguistic borders, converted millions of Hungarians into minorities in supposed nation states.”(Chaszar, 1982, p. 480)

Of the 10,050,575 persons for whom Hungarian was the mother tongue, no fewer than 3,219,579 were allotted to the successor states: 1,704,851 to Romania, 1,063,020 to Czechoslovakia, 547,735 to Yugoslavia, and 26,183 to Austria. While the homes of some of these— e.g., the Szeklers—had been in the remotest corners of historic Hungary, many were living immediately across the frontiers. (Encyclopaedia Britannica, Section Hungary, 2006)

Figure 5.1: Hungary Before and After the Treaty of Trianon (1920)



<http://www.webenetics.com> – The Treaty of Trianon and Dismemberment of Hungary

One long-term consequence of these developments was that the situation of Hungarian minorities in neighbouring countries remains an important policy shaping factor for Hungary even today (see more detail on this under Chapter 6). With the Treaty of Trianon, Hungary became both geographically and politically a small country with scarce resources. The goal of the Allies in creating the Treaty was to replace the multi-national monarchy with smaller and militarily weaker national states. These new, independent and smaller states were supposed to provide effective obstacles against a future German expansion into Eastern and Central Europe. However, “[h]istory was to prove twenty years later that instead of ensuring peace for generations to come, the peacemakers created a settlement that carried within itself the seeds of the Second World War and the Cold War....”(Chaszar, 1982, p. 480).

Although following the Treaty of Trianon the successive Hungarian government of Istvan Bethlen (1921-31) achieved a relative political and economic stabilization of the country, it was unable to cope with the economic depression, which hit the agricultural sector especially hard. Another important question for both politicians and the population remained the desired revision of the Trianon Peace Treaty. As a revision through diplomatic means was not achievable, the governing elite became divided on whether a military alliance with Germany would bring the desired results or, especially in the case of another defeat, would cause further damage to the country. The nationalistic idea of territorial recovery was also nurtured by Hitler’s Germany. Hitler’s Eastern expansion policy was uncovered too late and Hungary was unable to distance itself from its allies. The country was occupied by Germany and thus defeat was unavoidable.

After World War II, Hungary once again became the Western part of an Eastern Empire by coming under the control of the Soviet Union, particularly after 1949. Between 1945 and 1949 there was an attempt to maintain a democracy in the country, based on a multiparty system, but despite the fact that the ‘Independent Smallholders’ Party’ (Független Kisgazdapárt) won the elections held in November 1945 (57% of the vote), (Balogh, 1984) the Soviet commander of Hungary refused to allow the Smallholders’ Party to form a government. Instead the party was forced to enter into coalition with the Hungarian Communist Party (Magyar Kommunista Párt) led by Mátyás Rákosi and Endre Gerő. With massive support from the Soviet Union the communists took control of the country’s governance under the renamed ‘Hungarian Worker’s Party’ (Magyar Dolgozók Pártja) in 1947. Thus the era of Stalinism began and a border between Hungary and the West was created which would last for the next 40 years.

5.3 ‘Goulash’ Communism and a ‘Backstage’ Transition until 1990

The dissatisfaction of the Hungarian population with ideological oppression, economic stagnation and the desire for independence led to the revolution of 1956. The initial success of the revolutionaries led to the appointment of a new government. The new 1956 government of Imre Nagy promoted a multiparty-system, freedom of the press, guaranteed human rights and succeeded in persuading the Russian forces to leave the country. The new government had hoped for help from the West, as this had regularly been offered over the radio “Free Europe”, but help never arrived. Instead, János Kádár, who belonged neither to the reformist opposition around Nagy nor to the conservative wing of the party, requested Soviet intervention which ultimately resulted in a bloody end to the revolution. (His real motives behind this step are still debated by historians and politicians.)

The one-party system was re-established after 1956 and was led by the renamed Hungarian Socialist Labour Party (Magyar Szocialista Munkáspárt - MSZMP) and by Kádár. He announced a “fight on two fronts”: one against communist dogmatism and one against the revisionism of the legitimacy of his government. As by the mid-1960s he had not been successful in convincing people to forget the trauma of 1956 he had changed the stance of the party according to the Roman principle “Panem et Circenses”. The new slogan became “Aki nincs ellenünk, az velünk van!” (“Who is not against us, is with us!” – author’s translation) which meant that the population was no longer forced to officially identify themselves with the party ideology and its rituals, and thus a ‘silent compromise’ was formed between the government and the public. This compromise was based on the notion that, “we give you living standards and private freedom and you let us do the politics and do not remember the revolution of 1956”. (Krén, 1994, p.41) As a result of these unofficial agreements, Hungarian society retreated to the private sphere and developed a rather materialistic living style.¹⁶ With this policy, Kádár succeeded in both showing loyalty to ‘Big Brother’ – the Soviet Union – and at the same time was able to improve the living standards of the Hungarian population. As the members of the government did not take the ideology of communism too seriously, a “latent pluralism” was able to develop within the institutional level of the government, the followers of which established an ‘Opposition’. (Krén, 1994, p.41)

At a cultural level, the Hungarian government applied a policy of censorship which was different to that of any other socialist country. They censored not authors themselves, but rather their works, according to the “three T triad” Támogatás (Support) – Tűrés

¹⁶ See more in: Hankiss, Elemér: *Zwischen zwei Welten – Wertewandel in Ungarn (Between Two Worlds – Change of Value System in Hungary)*, in: Europäische Revue, Heft 1, 1990, pp. 167-184

(Tolerance) – Tilalom (Prohibition). This system changed the relationship between authors and the government regularly and made it difficult for the critical intellectuals to organise themselves into a single opposition.

To analyse the foreign policy of Hungary it is necessary to reach back to the core assumptions of traditional Small State Theory. The central goal of traditional Small State Theory was to enhance the prediction of the foreign political behaviour of independent small states. Hungary, however, did not fit into this profile until 1989 as the foreign policy of the country was bound by the Warsaw Pact from 1955. Although the uprising of 1956 proved that even dependent small states can decide to undertake political steps that may alienate more powerful states, Hungary's foreign policies after this event and until the end of the 1980s were designed to avoid any further confrontation with the Soviet Union. The foreign political dependence also limited the country's possibilities for joining the most important multilateral agencies, especially those incorporating mainly Western countries. Thus, in contrast to the theoretical assumptions Hungary had a relatively low level of participation in international institutions and events. Its foreign policy was limited to the member states of the Warsaw Pact as well as supporting Soviet diplomatic interests, so although Hungary became a member of the United Nations in December 1955 and ratified the Act of Helsinki in 1975, these events were of little use in helping the country overcome its political isolation from the West.

In trading terms, Hungary did display the main characteristics of small states at that time. The country had a strong dependence on external trade, which although it could be pursued on the world market, was rather an exception to the rule: foreign trade relations among the socialist countries in Europe were also regulated by the Council of Mutual Economic Aid

(COMECON) from 1949, under the umbrella of the Soviet Union. The COMECON market was to a large extent determined by the economic interests of the Soviet Union. Because even within the frame of the COMECON, no true free competition existed and prices were based not on the interaction between supply and demand, but rather on diplomatic agreements, the deterioration of the market and production mechanisms undermined the natural economic abilities of the COMECON countries.

Despite its limited foreign political freedom Hungary tried to support its domestic economic interests by opening its foreign policy gradually towards the West. Concerning relations with the Western part of Europe, Hungary signed a so-called “Economic and Technical Agreement” with the EEC in 1968 that enabled some small scale bilateral trade: within a very limited allowance, Hungary could export some textile products and sheep meat and could import some highly needed equipment. The word ‘technical’ was included in the title of the agreement so as to get approval from the Soviet Union for some important technology imports from the West. The major challenge, though, hid in closing the bilateral trade contracts between countries, because according to the Common Commercial Policies of the EEC, Hungary should have signed its commercial contracts with the Community and not only with some of its Member States, however this was not approved by the Soviet Union as part of its ‘non-recognition policy’. This policy meant the non-recognition of the EC by the Soviet Union and its allies in terms of not only foreign trade but also in diplomatic terms as well. To overcome these restrictions, Hungary made some efforts to maintain and foster the so-called Economic and Technical Agreements, but with little success. These events ultimately led to an ex-lex situation,¹⁷ which meant in

¹⁷ Exlex: outside the law

practice that the trading partners from the East and West were required to hold themselves to earlier agreements despite their illegitimacy.

The Trade and Co-operation Agreement in 1988 was the first step taken to normalise this situation. Hungary's next important step towards the West was its entry into GATT in 1973. Making a comparison to the foreign policy patterns of small states, it can be seen from these steps that as far as was possible Hungary tried to assert its domestic economic and diplomatic interests in the West, thus the country changed its earlier approach and attempted to pursue a domestically-driven foreign policy.

The economic crises in the world market in the 1970s and the failed economic reforms within the country pushed Hungary into an economic crisis that the government tried to counterbalance with foreign credits. The situation of the country during the 1970s can be best characterised by the citation: "The country is poor but its people are rich". The foreign debt rate of the country was over 40% in 1978 and rose to over 60% in 1982. (Bogár, 2006, p.31) According to the recommendations of the International Monetary Fund (IMF) in the 1960s a debt ratio over 20-25% was already a critical zone and over 25% the economy was considered close to being totally unable to repay its debts. (Ibid, p.30) Although the country joined the World Bank and the IMF in 1982, the catastrophic economic situation could no longer be hidden from the public. Living standards fell dramatically. By 1988, 10% of the Hungarian population lived below the minimum living standards and one third of the population lived in acute poverty. (Horváth, 1992, pp. 144-146) People tried to help themselves by working in second and third jobs in the shadow-economy. As a result of both this self-exploitation and the deep societal disappointment, Hungary's suicide rate reached a world peak (50 suicides per 100,000 people) in 1988 and alcohol consumption

tripled. (Hungarian Statistical Office, 1989, pp. 16-23) In this rather sombre context, the years of ‘Hungarian Goulash Communism’ and of the ‘Happiest Barrack in the Eastern-Block’, as Hungary was known as in the West, ended with the 1970s.

In contrast to the mainstream Western literature and publications that note the beginning of the economic and political transition period of Hungary to be in the 1990s, the Hungarian perception has typically been that the transformation in fact started with the economic crisis situation of the 1980s and the entry of the country into the IMF in 1982.

Feltevésünk szerint 1982 és 1988 között játszódik le valójában minden lényeges átalakulási folyamat (...) [a] ‘rendszerült rendszer’ hatalmi mélyszerkezetének megkonstruálása – a 60-as évek óta zajló felkészülés nyomán – 1982 és 1988 között ment végbe. (Bogár, 2006, p.34)

Az 1984 és 1987 között zajló formális reformmunkálatok fő célja a leendő western modernizációs hatalomgazdasági intézményrendszer jogi alapjainak és fő szerkezeteinek a megreformálása volt. Ezek a folyamatok először a különböző gazdasági intézményi formák piaci irányú kikísérletezését célozták. Ekkor jöttek létre az első, most már hivatalosan is deklaráható polgárjogi társaságok és gazdasági társulások, s ez a folyamat vezetett el az alapvető cél: a társasági és átalakulási törvény felépítéséhez. (Bogár, 2006, p.37)

We believe that the most important part of the transformation took place between 1982 and 1988....The construction of the power structure of the ‘transformed system’, based on the changes that had been happening since the 1960s, took place between 1982 and 1988. (Bogár, 2006, p.34, *translated by thesis author*)

The goal of the formal reform operations between 1984 and 1987 was the development of the legal foundation and the development of the main elements of the future institutional system of a Western style economy. The first aim of these processes was the market orientated work out of different economic institutional forms. The already official declarable civil and economic associations were set up at this time and this process lead to the main aim: to the development of the Company Law and Transformation Law. (Bogár, 2006, p. 37, *translated by thesis author*)

As Bogár explains above, the establishment of the new political powers was created through debates and compromises during these years, hiding behind the “old construction” in the strictest confidence. Bogár argues that what the Hungarian public – and the world - perceived as the “brave position holding of the forces that changed the system” in 1989-90 was just the public announcement of the results of backstage negotiations. (Ibid, p. 37) A huge number of new laws and legislative processes were passed within a couple of weeks in 1989 that would not have been possible without years of previously careful planning and

preparation. Neumann, Spéder, and Tóth (2006) from the Institute for Political Science of the Hungarian Academy of Sciences took a similar position to Bogár stating that Hungary:

[a]chieved substantial progress in establishing a basic legal and institutional framework for a market economy by the late 1980s. The foreign trade had a more varied pattern already, and companies had a number of contacts with the western markets (2006, p.3).

The authors also claimed that “[t]he peaceful transition to political democracy took place between 1988 and 1990, with the first free general elections held in April 1990.” (Ibid, 2006, p.3)

Mikhail Gorbachev’s presidency of the Soviet Union from 1985 meant not just a break with old values for the Soviet Union itself, but his liberal foreign policy also encouraged the communist allies to exercise open critiques of their governments and to question their legitimacy. The revision process in Hungary started with the replacement of some hardline politicians both in the central Committee of the Hungarian Socialist Labour Party (MSZMP) and in the Council of Ministers (ex. György Lázár) with politicians like Károly Grósz and Miklós Németh in June 1987 who were open to reform. The congress of the MSZMP from 20-22. May 1988 relieved János Kádár from his position and named Károly Grósz as the new general secretary of the party. The number of supporters of the conservatives fell to its one third. The aim of the conservatives was to hold onto power by maintaining the status quo. Another third was formed by the centrists following the general secretary and the third group was that of reformers like Rezső Nyers (who was the initiator of the economic reforms of 1968) and Imre Pozsgay.

Around the same time, the non-party opposition started to organise itself and to develop political concepts to change the system. Preliminary secret meetings were held in the town of Monor, followed by the printing and countrywide circulation of policy pamphlets. The

political scientist András Körössényi distinguished two distinct ideological mainstreams within the opposition: the “folk-nationals” (“népi”) and the “urban-democrats” (“urbánus”). To the “folk-nationals” belonged initially historians and writers of rural origin whose aim was the protection and preservation of the Hungarian culture in the neighbouring countries as well as the fight against social deviances. They later formed the core of the party MDF (Hungarian Democratic Forum). The “urban-democrats” consisted of intellectuals and human rights activists from Budapest and some bigger cities who organised themselves later into the party SZDSZ (Alliance of Free Democrats). The response of the Hungarian Socialist Labour Party (MSZMP) to the political developments in the opposition was the appointment of the young but highly-educated reform politician Miklós Németh as new Minister President in 1989.

The next significant date in the process of changing the old regime was the radio announcement of the results of the investigations of the Historical Sub-commission of the MSZMP led by Gyula Horn: the Commission had concluded that the revolution of 1956 was not a counter-revolution as it had previously been referred to after its defeat. (Horn, 1989, pp. 15-18) Through this outcome, “[d]ie Illegimität der bestehenden Macht, samt ihren Einrichtungen, also der Partei, der Regierung und des Parlaments (wurde) offenbar.“ (“[t]he illegitimacy of the existing power with its establishments, thus the party, the government and the parliament became obvious.” – *translated by thesis author*) (Varga, 1991, p.178)

As the official taboo of the revolution of 1956 was an open wound for older Hungarians in particular, the re-evaluation of the events in a radio announcement had a massive psychological effect on the population: it provided the real impetus to a political

mobilisation of the public. On the same day, the MSZMP announced the passing of the new law on the right of association and assembly and ten days later, at the meeting of the Central Committee on the 10-11th February 1989, the Party decided to introduce a multi-party system and thus waived the Party's leading role. (Krén, 1994, p. 80)

While the western international arena in general paid little attention to the internal developments of Hungary up to this point, the next phase of the transition brought far reaching consequences beyond the borders of Hungary: on the 2nd of May 1989 Hungarian border soldiers began the demolition of the 'Iron Curtain' on the Austrian-Hungarian border. This enabled the escape of people of the former German Democratic Republic (GDR) to the West and as even this courageous step was not opposed by the USSR, the government officially opened the borders of the country on the 10. September 1989 and announced its support for GDR citizens on their way to West Germany. (Table 5.1 provides a short chronological summary of the most important events of 1989-90.)

Table 5.1: Most important political events in Hungary 1989-90

Date	Event
1989	
29/01	Announcement of the illegitimacy of the government and its institutions based on the acknowledgement of the achievements of the revolution of 1956.
10-11/02	Announcement of the more-party system
02/05	Start of the demolition of the ‘Iron Curtain’ on the Austrian-Hungarian border
10/09	Opening of borders for GDR-people wanting to escape to the West
18/09	Signing of the agreement between the government and the representatives of the “Oppositional Round Table” (incl. 9 new parties and groups of interest) about the political and juridical steps of the system change and about the separation of state and religion.
23/10	Announcement of the ‘Hungarian Republic’ on the 33 rd anniversary of the revolution of 1956
26/11	“Four YES Referendum”
1990	
10/03	Agreement between Hungary and the Soviet Union about the total withdrawal of the Russian military force from Hungary until June 1991
25/03	First free elections since 1956

The Oppositional Round Table (Ellenzéki Kerekasztal – EKA) was established by the Forum of Independent Jurists (Független Jogászok Forum – FGF) in the spring of 1989 with the task of coordinating the political and juridical backgrounds of the system change and to lead the negotiations with the government. It participated in more than 3,000 individual meetings with over 500 consultants and more than 50 delegates of different interest groups and new parties. Table 5.2 lists the main participants of the EKA meetings.

After long and weighty discussions of the congress between the 6th and 9th October 1989, the MSZMP decided on its dissolution and the reformists of the party established the Hungarian Socialist Party (Magyar Szocialista Párt – MSZP) on the 7th October 1989. The followers of the old party later set up the Labour Party which did not, however, play a significant role in the later developments.

Table 5.2: Participating Interest Groups and Parties in the Oppositional Round Table Meetings in Hungary, Summer 1989

MDF (Hungarian Democratic Forum)
SZDSZ (Alliance of Free Democrats)
FKGP (Independent Small Farmers Party)
FIDESZ (Alliance of Young Democrats)
BZST (Friends of Bajcsy-Zsillinszky)
MSZDM (Hungarian Social Democratic Party)
TDDSZ (Democratic Union of Scientists)
TIB (Committee for Historical Justice)
KDNP (Christian Democratic People's Party)

Source: Bozóki, András (editor): A rendszerváltás forгатókönyve. Kerekasztal-tárgyalások 1989. Dokumentumok. I.-IV.k. (*The Script of the Regime Change: Roundtable Talks in 1989*) Vols. 1-4) Magvető, Budapest, 1999.

The next important achievement of that year was the declaration of the Hungarian Republic (earlier Hungarian People's Republic) on the 23rd October 1989 in front of the Parliament building. As this was also the 33rd anniversary of the revolution of 1956, the public was able to connect the new system to the national-historical continuity that was interrupted by the Soviet regime for 45 years.

The last significant event of the year was that of the "Four Yes Referendum", initiated by the Opposition Roundtable. As a result of the votes:

- Hungary became a parliamentary democracy;
- parties became removed from the workplaces;
- the Hungarian Socialist Workers' Party (MSZMP) was made accountable for all party property; and
- the workers' militia became disbanded. (Bozóki, 2002, pp.34-35)

On the 10th of March 1990 the government agreed successfully with the USSR on the complete withdrawal of the Russian military from Hungary by June 1991.

More than 50 parties were registered in March 1990, at the time of the first free elections. Twelve parties participated in the elections and six were elected to parliament: the Independent Small Farmers' Party (FKgP), the Christian Democratic People's Party (KDNP), the Hungarian Democratic Forum (MDF), the Alliance of Young Democrats (FIDESZ), the Hungarian Socialist Party (MSZP) and the Alliance of Free Democrats (SZDSZ). The following sections provide a short overview of the main ideological and societal backgrounds of these parties.

The Independent Small Farmers' Party was once the largest party in the short democratic period after World War II. The party reorganised itself in 1989 as an agrarian-populist organisation claiming the restitution of land to its original owners. Beside this claim, nationalism, traditionalism and anti-communism built the main slogan of the party. (Enyedi, 2005, pp.177-178)

The other historical party was the Christian Democratic People's Party proclaiming Christian values and interests, a pro-European image, anti-communism as well as a "...strong reservation against unregulated capitalism". (Enyedi, 2005, p.178)

The Hungarian Democratic Forum was a new party, organised initially by writers and historians as "The Forum" in 1987 (see "folks-nationals" earlier). The party grew until the elections by absorbing part of those who belonged to different reform circles. It can be characterised as a conservative Christian democratic party with the aim to position itself as

a centre-right organisation. The party was often divided between liberal and populist, moderate and radical internal groupings which considerably weakened its credibility for its supporters.

The other major centre-right party was the Alliance of Young Democrats founded in 1988 by university students. The party started as “radical, liberal, and alternative” (Bozóki, 1989), but to enhance its ‘mature’ image at the time of the first free elections it removed the term ‘alternative’ from its slogan. “The party was against the restitution of the nationalized property to its original owners: it was anti-clerical and criticized (...) nationalism...” (Enyedi, 2005, 179). Interestingly, despite having been led by the same person over the years (Orbán, Viktor), the party changed both its positions and slogans several times during the following decades. The new slogan included ‘Christianity’ and ‘Fatherland’ from 1994 on and its liberal position shifted to the side of the traditional right-wing. The party’s economic policy, however, was often ‘leftist’, especially in cases where the governing left-wing Hungarian Socialist party proclaimed ‘rightist’ economic reforms like the privatisation of the health care system. (More information on this see later under chapter 6.8 Hungary’s Non-Euro Readiness.) The name of the party also changed, first in 1995 and once again in 2003. While in general in public it is still referred to as FIDESZ, its official name is FIDESZ-Hungarian Civic Union.

The Socialist Party incorporated the reformers and technocrats of the former communist party, MSZMP. The main slogans have been social-democratisation, modernisation and liberalisation. The party implemented the most radical economic reforms among all parties over the following years and opposed nationalistic ideas. “The popular appeal of the party

lies mainly in its pragmatism, promise of competence, and in friendly relations with neighbouring countries.” (Enyedi, 2005, p.180).

The Alliance of Free Democrats originates from the human rights activist movement of the early seventies (see earlier ‘urban-democrats’). At the time of the first free election the party positioned itself as a social democrat, liberal and radical anti-communist grouping. At the time of the second elections in 1994 the party changed its radical position and rather supported the MSZP, as it evaluated the nationalistic and exclusive programmes of the right wing parties as “...to be hostile to liberal democracy” (Enyedi, 2005, p.180)

Comparing the programmes and slogans of these main parties with each other we can say that the Hungarian party system was – and still is as we will see later in chapter 6.4 on Hungary’s EU policy – characterised by the predominance of cultural issues over economic ones. Coming back to the results of the first free elections in March 1990, the winner was the Hungarian Democratic Forum (MDF) with 42.7% who built a coalition with the Christian-Democratic People’s Party (KDNP: 6.5%) and the Party of Small Farmers (FKGP: 11.7%). The opposition was comprised of the Hungarian Socialist Party (MSZP: 10.9%), the Alliance of Free Democrats (SZDSZ: 21.4%) and the Alliance of Young Democrats (FIDESZ: 9%). (Glatz, 1995, p. 182) According to an SZDSZ initiative the President of the Republic was the famous writer Árpád Göncz, and József Antal (leader of MDF) was appointed as Minister President. The backbone of the government policies were the Christian, national and civil values of the period prior to 1947 and they continued with the privatisation and development of market economy gradually, without causing a shock impact on society. However, this policy was ultimately less successful and at the

following election in 1994, – despite a more radical reform package – the Socialist Party won with a large majority 54% followed by SZDSZ (18%).

5.4 Relations between Hungary and the EU in the 1980s

The development of relations between the EC and Hungary expanded in the 1980s with frequent visiting delegations in both directions and important diplomatic and trade agreements that could not have taken place with a hard-lined Hungary.

A first major step was the bilateral agreement in 1982 on Hungarian sheep, goat and textile exports. This was followed by a number of initially informal and then later ‘expert’ meetings between the Hungarian government and the representatives of the EC between 1983 and 1985. These meetings focused on abolishing the discrimination against certain Hungarian exports to the EC market which, according to the GATT agreements should have been dismantled years before. The EC was reluctant to open its trade borders, however, which placed some rather heavy burdens on the relationship between the EC and Hungary. The challenge of the EC’s position and its possible negative consequences were analysed by European Parliament representative Axel Zarges in 1986. (European Parliament, DOC.A.2-28/1986) Based on his report (‘Zarges Report’), the European Parliament came to the conclusion that the development of a trade and cooperation agreement with Hungary was inevitable. (European Parliament, 14.07.1986) From 1987 onwards, official meetings were held between Hungary and the EC on the development of a comprehensive ‘Trade and Cooperation Agreement’ that was eventually signed in September 1988. Based on this agreement, the first meeting between the ministers from the EC and Hungary took place in Budapest at the end of the year. The first Hungarian Ambassador accredited to the EC was appointed in January 1989.

According to a later evaluation by Hungarian experts, the regulations of the 1988 'Trade and Cooperation Agreement' were far more advantageous for the EC than they were for Hungary. The EC's fear of 'export-invasion' from the economically weak Hungary was perceived as unjustified as Hungary's share of the EC's foreign trade volume was around only 0.5 percent at the end of the 1980s. At the same time the EC became Hungary's most important trading partner with EC Member States accounting for 25% of all export and imports. (Hargita, 1993, pp. 76-80) Hungary failed to achieve its primary goal of reduced tariffs for its most competitive export products, so the EC market – with allowances only for products that were not Hungary's main exports – remained largely closed for Hungary. On the other hand, in an attempt at encouraging foreign businesses into the country, Hungary agreed to provide informational data about its economy, the free availability of all statistical data and discrimination-free support.

Although the Agreement did not bring measurable economic advantages for Hungary's trade, its importance was of a more diplomatic nature: through the process of negotiations, it allowed the parties to get to know each other's interests, positions, and situations. It also enabled the development of the first people-to-people relations between diplomats and experts from the EC and Hungary as they worked together over a longer period. Thus, it can be argued then that personal linkages played an important role in the development of relations between Hungary and the EU. The names of Gyula Horn and of other experts (Dr. András Inotai, Dr. Baráth Etele, Dr. Péter Gottfried, Dr. Péter Györkös) were well known and appreciated by their European negotiation partners. These experiences might have contributed to the establishment of the first official aid package to Hungary, initiated by

the EC in 1989: the PHARE programme that opened up a new chapter in the development of relations between Hungary and the EC.

The goal of the Poland and Hungary Assistance for Restructuring the Economy (PHARE) programme was to provide financial and technical assistance to Hungary and Poland from 1990 onwards and later to other transitional Central and Eastern European countries. The amount of the PHARE payments were small (approximately 100 Million ECU per year for Hungary) and because of the bureaucratic nature of its accessibility, just 46% of this sum was paid out in the first years. In other words, the actual sums paid between 1990 and 1993 amounted to an annual contribution of less than US\$6 per head. (Kádár, 1995, p. 15)

Hungarian and Polish recipients often criticised the PHARE implementation process and the content of the financial part of the programme in its first three-to-four years. According to these individuals, the programme did not take into consideration the real needs and capabilities of the recipients: just 15% of the sum was applicable for the development of the collapsed infrastructure in Hungary, while 40% was paid out for Western consultants whose recommendations – with few exceptions – turned out to be largely irrelevant for Hungary. The following citation is an excellent reflection of the change in public perception after the initial euphoria about receiving aid from the West had passed:

... az “ideiglenesen hazánk területén tartózkodó” PHARE-szakértők, mint az rövid időn belül kiderült, nem rendelkeztek egységes, világos, áttekinthető stratégiai vázlattal teendőiket illetően. (...) Az akkori magyar átlagfizetések kb. 30-szorosáért itt dolgozó szakértők többnyire a Nyugat steril tudását, vagyis az elvont piacgazdaság “szoftverjét” próbálták meghonosítani az átalakulóban lévő Magyar társadalomban, gazdaságban. (...) A külföldi szakértő azonban többnyire hamar rájött, hogy ha itt valaki tanulhat, akkor a helyzet logikájából adódóan az nem, vagy nem elsősorban a magyar fél, hanem ő maga (mármint a külföldi szakértő). A legtöbbjük azonban valóban tanult is... Majd néhány év itteni tanulás után hazatérvén, saját tanácsadócéget alapítva igen jól jövedelmezően értékesítette a Kelet-Európába tartó vállalkozások számára az itt így felhalmozott tudását és kapcsolati tőkéjét. (Bogár, 2006, p. 52)

It became apparent fairly soon that the PHARE experts ‘stationed temporarily in our country’ had no united, clear and transparent strategic plan as to what they were supposed to do... The experts working here for the ca. 30 fold of the Hungarian average wage tried to plant the sterile knowledge of the West, that is the ‘software’ of the abstract market economy into the Hungarian society and economy under transition... Foreign experts mostly realized quickly that if there is someone who

could learn here that is, resulting from the logic of the situation, not or not merely the Hungarian partner but himself. So most of them learnt indeed... Returning home after a couple of years studying here they opened their own consulting companies and sold their acquired knowledge and business relations very profitable for companies approaching Eastern Europe. (Bogár, 2006, p. 52, *translated by thesis author*)

The shortcomings of the PHARE programme were modified in 1995 to allow for more direct financial access to economic actors from different sectors. The three most important achievements resulting from PHARE for Hungary were:

- An immediate ban against trade discrimination (except for textile products and products listed in the treaty of ECSC) which created extra exports for Hungary valued at US\$ 100-120 million;
 - Hungary's inclusion into the GSP (Generalised System of Preferences) which brought a tariff advantage of approximately US\$ 40 million for Hungary; and,
 - Economic assistance in form of credits (90%), financial aid (10%) and consultancy.
- (Abos, 1995, p. 215)

The next section deals with the economic and social challenges Hungary faced in the 1990s from a largely 'insider's' perspective.

5.5 Transition, Consolidation, and Preparation for EU Accession (1990s)

As was the case in other Eastern European transition economies, Hungary experienced a deep recession early in its transition: between 1990 and 1993 the collapse of Hungary's COMECON exports caused a 20% drop in GDP. (Dragoljub, 2004, p.5) Kornai (1999) named this period as one of 'transformation recession' and identified five main causes: (1) the shift from a sellers' to a buyers' market, (2) the transformation of the real structure of the economy, (3) the disturbances in the coordination mechanisms, (4) the macroeconomic

consequences of the hardening of financial discipline, and (5) the backwardness of the financial system. (Kornai, 1994)

Die Wirtschaftskrise in den Ländern Ost-Mitteleuropas glich einer *Kriegssituation*, da die Verluste an die des zweiten Weltkrieges erinnerten. Die erzwungene Änderung der Lebensweise, die Verunsicherung der Lebensverhältnisse gingen mit der gleichzeitigen Krise des Gesundheitswesens, der Verschlechterung der sozialen Versorgung einher und setzten der Euphorie ein schnelles Ende. (Ágh – Kurtán, 1995, p. 896)

The economic crisis in the countries of Middle and Eastern Europe was similar to a *war situation*, as it remembered one on the loss of the Second World War. Enforced change in the living style, uncertain living conditions paired with simultaneous crisis of the health system and worsening social security made the initial euphoria a quick end. (, Ágh – Kurtán, 1995, p. 896, *translated by thesis author*)

Savings and restrictions in the social area, mass unemployment (over 23% in some regions), rising inflation (22.5% in 1993) and the repeal of price subventions led to poverty for a wide stratum of the Hungarian population. (Central Statistical Office Hungary, 1993)

The failure of Western economic patent receipts, the pressure of international monetary organisations and the aggressive battle by Western investors for a market share also contributed to the exploitation of both production and human capital in the early 1990s.

While the population – after the initial shock – showed an understanding about the necessary restrictions in living conditions and exhibited a very high tolerance when accepting the decline in their living standards, it did so with an aspiration for Hungary's quick accession to the European Community. Indeed, a wide range of unpopular regulations were able to be passed through parliament because there was a unity among different parties and the population in general that Hungary's only chance for survival lay in the country's EC membership. Unfortunately the Schengen Agreement (with implementation starting in 1990) was very 'bad timing': it suggested to the transition countries that the West was more interested in new markets and low working capital than in a unified Europe. While the former Eastern bloc countries were often sharply criticised

by the West for not allowing the free movement of their people (through the imposition of travel restrictions to the West), people with their newly won 'World Passes' stood confused in front of 'Fortress Europe': "Die Freiheit der Auswanderung wurde verknüpft mit dem Verbot der Einwanderung." ("The freedom of emigration was bound with the prohibition of immigration.", *translated by thesis author*), (Eörsi, 1995, p.122) Even going on holiday to the West became more difficult than it had been during the 'old times'.(Schönherr, 1995, p.16)

The next step in the development of relations between Hungary and the EC was created by the Europe Agreement in 1991. Its aim was to provide a political, technical and financial framework for the assistance of Hungary's transition and later integration into the EC, as well as broaden the trade and economic relations between the parties. Despite the fact that the Europe Agreement created a higher level of collaboration between the European Community and Hungary (and the other candidate states) in its original form it caused much disappointment throughout Hungary. The European Community was uninterested in the much desired Hungarian goal of trade liberalisation and wanted discussions postpone for five years. According to this position the 'four freedoms' (free movement of people, services, goods and capital) for Hungary were only considered as vague possibilities for the future.

At the same time, the calls for the internal reform of the EC itself became stronger and the debate about the future of the Community seemed endless as no agreement could be reached among the Member States, particularly in regards to widening or deepening or both at the same time. This happened in a period when people in associated countries had

the highest – perhaps somewhat unrealistic - expectations from their governments regarding their successful negotiations at the European Round Table.

Wird unsere subtile Vertiefung-Erweiterung-Dialektik in Warschau, Prag oder Budapest anders als pure Rhetorik aufgefaßt? (...) Da die vor kurzem hofierten und nun in dem Wartesaal der Geschichte untergebrachten Gesprächspartner einen berechtigten Ärger andeuten, ist von unseren *think tanks* der brillante Ersatz der Teilintegration ausgeklügelt worden: Wer Glück hat, wird in die Gemeinsame Außen- bzw. Sicherheitspolitik integriert, verbleibt jedoch abseits vom Ökonomischen, d.h. er wird aufgenommen in das, was nicht ist, und ausgeschlossen von dem, was ist. Was Wunder, wenn die Ungarn recht kritisch auf das Angebot reagiert haben! (Korinman, 1996, p.699)

Will Warsaw, Prague or Budapest perceive our subtle deepening-widening-dialectic otherwise than pure rhetoric? (...) As the shortly celebrated and now in the waiting room of the history placed discussion partners signalled a justified anger, our *think tanks* invented the brilliant substitute of a partial integration: Those who are lucky will be integrated into the Common Foreign and Security Policy, however, will be kept outside the economy, that is they will be admitted in what does not exist and will be excluded from what already exists. No wonder that Hungarians reacted rather critically to that offer! (Korinman, 1996, p.699, *translated by thesis author*)

After the first years of transition, the American and Western European interest in Central and Eastern Europe had shifted from political and security concerns to a pure ‘market economic’ interest, ignoring all other requirements for a functioning society. James Wolfenson, President of the World Bank acknowledged at a conference held in Washington in October 1998 that they “...focused too much on the economy without understanding of the social, political, environmental and cultural sites of the societies.” (*citation not original as translated by thesis author from Hungarian source: Bogár, 2006, p. 39*) Similar thoughts were expressed by Michael Camdessus (ex-general director of IMF) at a UN conference in Bangkok in 2000. Nobel-prize winner Joseph Stiglitz, Wolfenson’s deputy and leading economist of the World Bank between 1996 and 2000 was especially critical at a conference in Washington in April 2000 on the developments of the first 10 years of the Central and Eastern European transitional economies:

A közép- és kelet-európai térség átalakításában döntő szerepet játszó neoliberális tankönyv-közgazdászok elvont doktrínáikat követve teljesen figyelmen kívül hagyták a térség történelmi hagyományait és ott élők valóságos helyzetét. (Bogár, 2006, p.39)

The neoliberal text-book economists who played a central role in the transformation of the Central- and Eastern European region, following their abstract doctrines completely disregarded the historic traditions of the region and the real situation of the people living there. (Bogár, 2006, p.39, *translated by thesis author*)

The constrained relationship between the European Community and Hungary was at last eased, however, firstly by the statement of the European Council in June 1993 that recognised the right of the countries of Central and Eastern Europe to join the then European Union when they had fulfilled three ‘Copenhagen criteria’¹⁸:

- Stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- The existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union; and,
- The ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

A final criterion was set for the EU itself which emphasised the need for maintaining the momentum of European integration when absorbing new members. (Sajdik, 2004). In fact, with future membership in mind, Hungary had been making efforts to meet these expectations since the change of the old regime had begun. The Hungarian government had introduced a drastic stabilisation programme in 1995 to accelerate the structural reforms initiated in the early 1990s and this recovery was driven by exports and investments which put the country back on the path of steady economic growth.

Hungary submitted its official application for membership to the EU on the 1st of April 1994. The European Council of Essen in December 1994 outlined a pre-accession strategy,

¹⁸ See original document at:
http://ec.europa.eu/enlargement/enlargement_process/accession_process/criteria/index_en.htm

which included within the frame of the so-called “structured dialogue” the development of a “White Book”. The goal of the “White Book” was to provide associated countries with a guideline to adapt their legislation to that of the EU in 23 different areas, in order to meet the criteria of the single market (White Book, Cannes 1995). After assessing Hungary’s developments over the following years, the European Commission published its country analysis (avis) in 1997 (Opinion on Hungary's Application for Membership of the EU) and recommended the opening of accession negotiations with Hungary, Poland, Estonia, the Czech Republic, Slovenia and Cyprus, which began in 1998.

5.6 Accession Negotiations between the EU and Hungary 1998-2002

As part of the preparation for the accession negotiation, “Accession in Partnership” working plans were launched between the EU and Hungary as well as other candidate countries:

The European Council decided that the Accession Partnership would be the key feature of the enhanced pre-accession strategy, mobilising all forms of assistance to the candidate countries within a single framework. In this manner, the EU targets its assistance towards the specific needs of each candidate so as to provide support for overcoming particular problems in view of accession. (Accession Partnership, 1999, p.2)

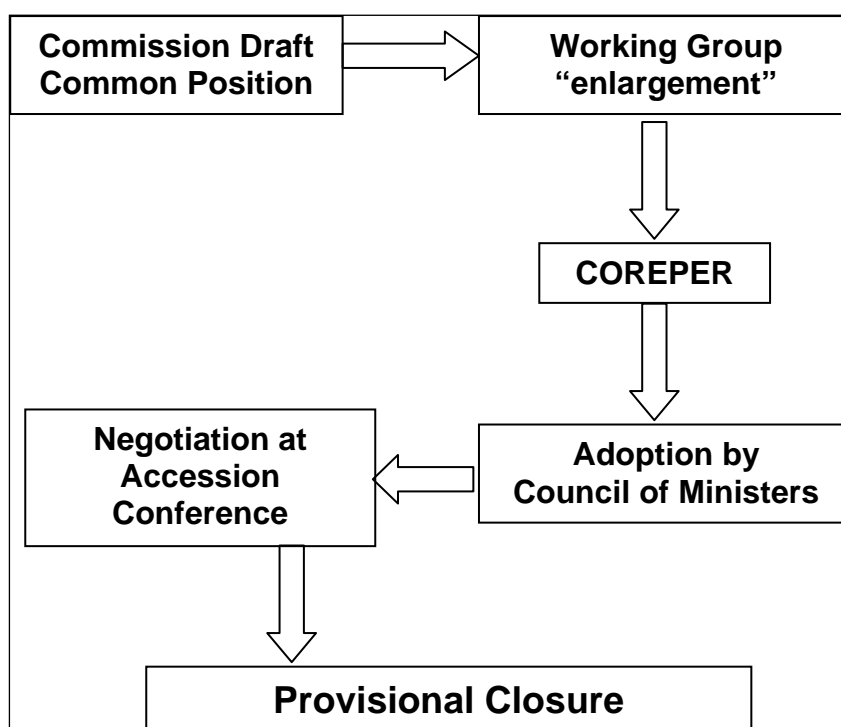
Rather than simply providing a copy of the negotiation steps and documents, which are available in the archive collection on the 5th enlargement of the EU (<http://ec.europa.eu/enlargement/archives...>), this section rather provides some insight into how the negotiation process between the EU and Hungary actually developed. The visit of Ambassador Martin Sajdik, EU enlargement negotiator, at the NCRE at the University of Canterbury in July/August 2004 provided first hand information on the negotiation process with Hungary. Hungarian politicians felt that it was a fortunate coincidence that the negotiations between Hungary and the EU were conducted under the EU presidency of their neighbour, Austria. While in theory, the negotiation processes should have been run

the same way and with neutral participation by each presidency, it is arguably inevitable that being acquainted with each others' cultures and values over centuries as neighbouring nations would have had positive effects on accelerating the negotiation process.

The principle of the negotiation process was based on the motto: "Nothing is agreed until everything is agreed", meaning that every closure was to be considered as provisional until a final agreement was reached on each point. (Sajdik, 2004) Talks were held both at ministerial (foreign ministers) and deputy level: candidate countries were represented by chief negotiators and the EU member countries by their permanent EU representatives. Figure 5.2 provides an insight into the ways in which the different chapters of the Accession agreements were negotiated. The strategy of the Austrian EU presidency was to begin negotiations with the 'soft' chapters (research and development, small and middle-sized enterprises, education-training) and progress towards the 'hard' chapters. In the case of Hungary, this meant that the negotiations on agriculture were opened last, in 2000. The Accession negotiations were concluded with the first ten applicant states at the Copenhagen Council in 2002 and the final treaty was signed on April 16, 2003.¹⁹ The negotiation process was evaluated as especially challenging, but both the EU and Hungary – as with the other candidate countries - were ready to compromise:

International talks never bring maximum results. The negotiating parties – even in the case of the friendliest relations – necessarily have to reconcile their interests in order to find a compromise. This is what happened at the accession talks as well. No party achieved all that it had intended to achieve in the beginning, but no party was a loser either. In fact, European cooperation is not based on gaining a great deal to the detriment of the other. Here, the objective is to meet every country's requirements to as great degree as possible. (Konrád – Vándor, 2004, p 11)

¹⁹ Treaty of Accession 2003: Official Journal L. 236 of September 2003; Here you will find the Accession Treaty 2003 with Annexes and Protocols and other documents concerning the accession of the countries that joined the EU on 1 May 2004, such as Commission Opinion of 19 February 2003, European Parliament Resolutions on the application to become member of the EU (Assent Procedure), Council Decision on the admission to the EU.

Figure 5.2: Method of Negotiating a Chapter

Source: Martin, Sajdik: Enlargement of the European Union, a Power Point Presentation at NCRE, University of Canterbury, Christchurch, 04/August 2004

To provide a better understanding of what it meant to be working toward an accession treaty one must visualise a treaty of about 6,000 pages in length which lists not only technical adaptations to the *acquis*, but also transition periods, declarations and protocols and which required 25 approving signatures. (Sajdik, 2004) While most Hungarian members of the negotiation process were satisfied with the results, they earned criticism from the Hungarian public, as did their other EU candidate colleagues in their home countries. One area of the negotiations that caused disappointment was that of the ‘free movement of people’ with the right to work anywhere in the EU, which was not automatically guaranteed from 2004 onwards. Despite this shortcoming, however, 83.76% of the submitted votes during the Hungarian referendum on the 12th April 2003 on accession were in favour of joining the EU and only 16.24% were against (with a participation of 45.62% of the eligible population). (Fowler 2003, p.8) Hungary became a

Member State of the EU on the 1st May 2004. Hungary also made use of the possibility of certain transitional exemptions in some areas, where immediate implementation would have imposed especially heavy burdens either on the economy or on the society. Table 5.3 lists the chapters of the *Acquis Communautaire* with the major transitional exemptions granted to Hungary.

5.7 Summary

Summarising the developments in the relationship between the EC and Hungary from the 1980s until the mid 1990s it is obvious that desires and reality rarely met each other during these years. This was partially because both Hungary (like the other candidate countries) and the EU had unrealistic expectations of each other which were generated by nearly half a century of separation. Both the reforms of the PHARE programme and the internal economic stabilisation programme in 1995 improved Hungary's economic performance significantly in the following years. Trade and diplomatic ties with the EU became more intensive and led to the opening of EU accession negotiations with Hungary in 1998.

Referring back to the theoretical assumptions of this thesis, it has been seen that similar to New Zealand and as far as it was possible in the period of the Cold War, Hungary changed the course of its foreign policy as a reaction to domestic economic and societal challenges from the 1970s onwards. Furthermore, Hungary's EU policy was driven to a large extent by its domestic interests of economic and social development. In developing a successful EU policy the country's internationally acknowledged diplomats and experts played an important role, independent from the changes in the ruling governments. From New Zealand's point of view it might be interesting to look at the results of these negotiations: the tasks, requirements and opportunities that Hungary has as a new EU Member State.

Table 5.3: Breakdown of the *Acquis Communautaire* According to Chapters and Major Transitional Exemptions Granted to Hungary

Title of the <i>Acquis</i> Chapter	Area of transitional exemption
1 Free movement of goods – 2 Free movement of persons – 3 Free movement of services 4 Free movement of capital;	Investment protection, the level of the startup capital of cooperative credit institutions
5 Company law –	Limitations on the acquisition of property in Hungary limitation on the purchase of arable land
6 Competition policy	Preserving tax preferences for large-scale investors; tax preferences for local governments
7 Agriculture	Preparation of slaughterhouses; protection of winegrowing areas; standardisation for the cages of egg-laying hens
8 Fisheries – 9 Transport policy	Cabotage limitation; restrictions on overfreight vehicles; exemptions for MÁV (Hungarian State Railways) and MALEV (Hungarian Airline Company)
10 Taxation	Preference VAT rates in certain sectors; keeping the VAT rates of small and medium enterprises at a low level; excise taxation
11 Economic and monetary union – 12 Statistics – 13 Social policy, employment – 14 Energy – 15 Industrial policy – 16 Small and medium enterprises – 17 Science and research – 18 Education and training – 19 Telecommunication and information technologies – 20 Culture and audiovisual policy – 21 Regional policy and coordinaiton – 22 Environment protection	Packaging waste management; incineration of hazardous waste; conducting sewage water from settlements; air pollutant emission of large heating equipment
23 Consumer and health protection – 24 Co-operation in justice and home affairs – 25 Customs union	Raw aluminium import; relief from customs payment obligations; managing customs free zones
26 External economic relations – 27 Common foreign and security policy – 28 Financial control – 29 Financial and budgetary provisions – 30 Institutional issues – 31 Other items –	

Source: Konrád, Márta / Vándor János: Hungary in the European Union, in: Fact sheets on Hungary, published by the Hungarian Ministry of Foreign Affairs, Budapest 2004, p.6

Chapter 6

HUNGARY IN THE EUROPEAN UNION

6.1 Introduction

The start of Hungary's official membership of the EU on the 1st May 2004 was not an indication that the country's integration process was over. Integration is a lengthy process and is one which requires regular and constant adjustments and the coordination of national and EU policies in all areas. In this context, Hungary still has numerous tasks to complete in order to completely catch up with the old EU Member States. The integration is, however, not merely about political-economic and legal harmonisation: "Whole societies, ways of thinking and the mentality of the peoples concerned had to be integrated into the new system." (Konrád – Vándor, 2004, p. 9)

The future challenge for Hungary is to contribute actively to the development of the EU both at institutional and operational levels in all policy areas while utilising the advantages of its EU membership to foster its own national interests. This means that Hungary has the opportunity to change its position from being merely an EU "policy acceptor" to a "policy shaper", showing the possible strengths of a small country in an international environment.

Chapter 6 investigates Hungary's EU policy during the first three years of membership and seeks to explore the policy areas in which Hungary is or could be a leading policy shaper. The results of this chapter may be helpful for New Zealand to identify those areas where approaching Hungary might further foster New Zealand's interests within the EU.

The chapter begins with an investigation of the institutional linkages between Hungary and the EU. It also examines the number of Hungarian representatives in different EU institutions and departments. As EU membership influences not just the national internal matters but also the foreign policy interests of countries inside and outside the Union, Hungary's foreign policy is analysed next. According to Small State Theory small countries' foreign policies are strongly tied up with their international trade interests. In order to take full advantage of the single EU market, as well as comply with the terms of accession, the introduction of the European currency (euro) is inevitable for all new EU Member States. The introduction of the euro has also had strong impacts on the national economy of the countries. Therefore, Chapter 6 closes with a short economic "Euro-readiness" analysis of Hungary.

6.2 Institutional Linkages between Hungary and the EU

The Hungarian Committee for European Community Affairs (Európai Közösségi Ügyek Bizottsága) was created in 1992 to assist in the development and coordination of EU policies in Hungary, and to provide assistance for Hungarian diplomacy during negotiations with the EU. In accordance with the changing relationships and obligations between the EU and Hungary, the institution went through various developments.

The principles for EU coordination since 1996 have been consistent, however. The first principle is the responsibility of ministers. This means central offices were not delegated the tasks and obligations resulting from EU membership, but rather each minister and department was individually responsible for following EU policies, for developing, coordinating and finalising the Hungarian position, and for the implementation of the different EU policies and obligations. Their tasks also included law harmonisation,

necessary institutional development and cooperation, and consultation with social partners and professional organisations.

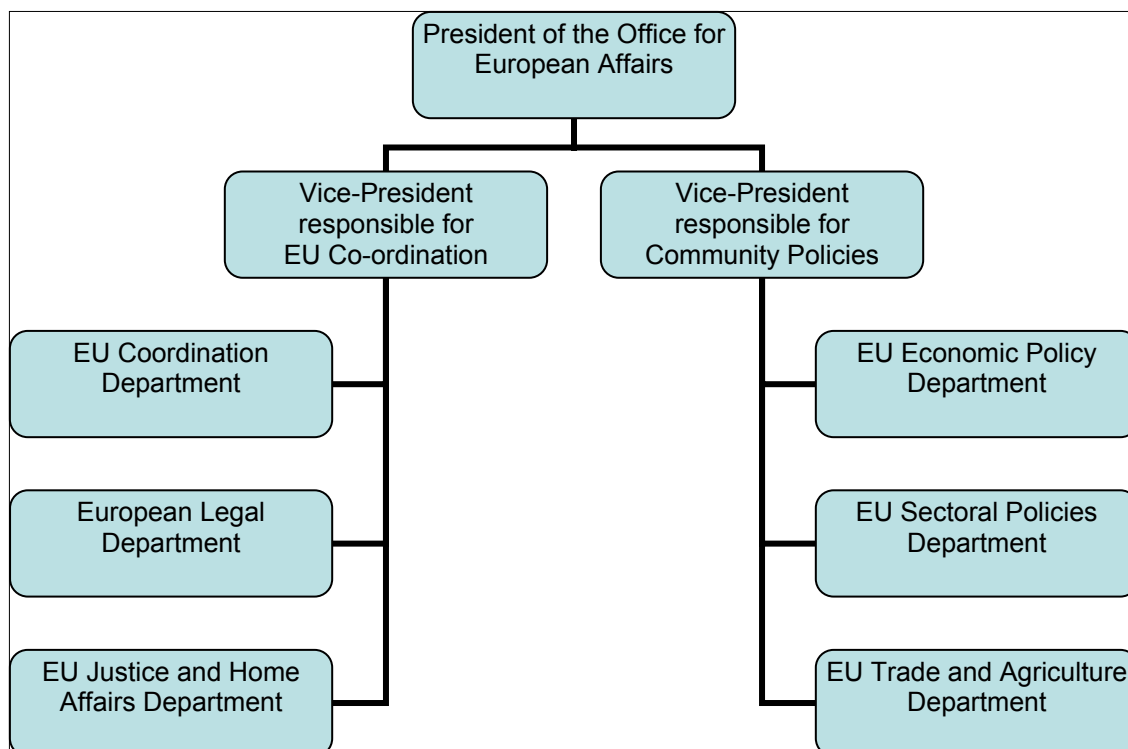
In the interest of a comprehensive and effective representation of national interests in all sectors and institutions of the EU, and to avoid the danger of promoting sectoral interests over national ones, a single governmental coordination centre needed to be created. This horizontal coordination was established between 1996 and 2004 by the State Secretariat for Integration and External Relations within the Ministry of Foreign Affairs and from 2005 onwards by the Office for European Affairs under the auspices of the Prime Ministers' Office. Topics related to the EU's common foreign and security policy, however, remained within the scope of the Ministry of Foreign Affairs. "The Office for European Affairs is responsible for coordinating EU policies and the adoption of Hungary's position on EU issues; for promoting the fulfilment of Hungary's obligations arising from EU Membership." (Európai Ügyek Hivatala, 2006, p.1)

The Office for European Affairs is supervised by the Minister responsible for European Affairs and is directed by the President of the Office. President of the Office for European Affairs is Dr. Péter Gottfried, State Secretary, who is also deputy chairman of the Interministerial Committee for European Affairs and secretary of the Cabinet of Government on European Affairs. Vice-presidents of the Office for European Affairs are Dr. Péter Györkös, who is responsible for EU Coordination and Iván Gábor who is responsible for Community policies. Figure 6.1 shows the structure of the office.

In developing its coordination model, Hungary tried to be inclusive of all governmental levels which meant that rather than having European affairs handled by a small elite group, it is instead integrated into the daily duties of all Hungarian governmental and local

institutions. This system ensures the delegation of decision making to the lowest level while enabling these decisions to be checked for EU conformity.

Figure 6.1: Structure of the Office for European Affairs



Source: Európai Ügyek Hivatala (Office for European Affairs), <http://www.euhivatal.hu>, 2006

Another important institution is the Interministerial Committee for European Affairs that incorporates 49 groups of experts covering all policy areas of the EU. The Committee meets once a week and prepares the Hungarian positions for the actual meetings of the COREPER and the Council of Ministers. The Hungarian EU coordination is of course impossible without Hungary's Permanent Representation (PR) in Brussels (earlier Hungarian Mission to the EU):

Staff members of the PR acting in the different working groups of the Council cooperate closely with national experts to provide the basis for elaborating the Hungarian position. Following technical preparation at expert level in the working groups, issues requiring sounder approach are further discussed by the ambassadors in different formations (COREPER II, COREPER I, PSC) before being put on the agenda of the Council of Ministers', then to the European Council of heads of state and government. (Permanent Representation of Hungary to the European Union, 2006, p.1)

Lastly, one further important role engages the Hungarian Parliament and the Hungarian delegates of the European Parliament in the effective coordination and implementation of European policy.

6.3 Hungarian Delegates in Different EU Institutions

According to an indicative estimate given by the European Commission, there should be 523 Hungarians working across different EU institutions by 2010. By the middle of 2006 there were 1,627 employees in total hired from the ten new Member States of which 285 were Hungarians (17.5%). For the 28 highest-level management/directorial positions, Hungarian experts were successful in securing 9 (32%), and out of the 46 middle management positions Hungarian applicants won 10 positions (21.7%) (EU Communications and Public Relations Department of the Hungarian Ministry of Foreign Affairs, 2006, p.1). These numbers indicate that Hungarian experts are well qualified and accepted in the EU and arguably, that a high level of education is one of Hungary's strength and areas of potential in the EU market.

As New Zealand has had ambitions for marketing itself in Europe as a place of high quality education, making links with the relatively high number of Hungarian experts and decision makers in EU institutions might be advantageous. Table 6.1 shows some of the most important EU positions held by Hungarians in 2006.

Table 6.1: Most Important Positions Hold by Hungarians in Different EU Institutions in 2006

Name	Institute	Position
Balás, Péter	<u>EU Commission:</u> Directorate General Trade	Deputy Director-General
Szűcs, Tamás	Directorate General for Communication	Director
Siegler, András	Directorate "International Scientific Cooperation"	Director
Kovács, László	Taxation and Customs Union	Commissioner
Kazatsay, Zoltán	Directorate-General for Energy and Transport.	Deputy Director General
Terták, Elemér	Directorate Internal Market and Services DG, Directorate H-Financial institutions	Director
Szabó, Sándor	Directorate 2: Health, Consumers, Foodstuffs, Education, Youth, Culture, Audiovisual Affairs	Director
Kiss, Tibor	COREPER II	Ambassador Extraordinary and Plenipotentiary Permanent Representative of Hungary
Dr. Dienes-Oehm, Egon	COREPER I	Deputy Director of Permanent Representative of Hungary
Tatár, György	Task Force, Horizontal Security Issues, Policy Unit of the General Secretariat of the EU	Head of Task Force
Fáy, Eszter	<u>European Parliament:</u> Member of the cabinet of Josep Borrell, President of the EP	Foreign Policy Consultant
Jakab, Zsuzsanna	<u>European Centre for Disease Prevention and Control</u>	Director
Salgó, László	<u>European Police Office (EUROPOL)</u>	Deputy director
Söveges, Erika Katalin	<u>European Court of Auditors</u>	Head of Private Office
Dr. Juhász, Endre	<u>Court of Justice</u>	President of Chamber

Source: Permanent Representation of Hungary to the European Union (<http://www.hunrep.be/indexEN.htm>), accessed 15 August 2007

6.4 Hungary's Europe Policy

For New Zealand to maximise the advantages of the enlarged EU, however, it is not enough to simply know where and how many Hungarians (or other nationalities) work at different EU institutions. Equally important is a knowledge and awareness of the most important features of the European policy of the different Member State governments and the representatives of the different parties in the European Parliament. The following table shows the number of Hungarian representatives and votes in some EU institutions:

Table 6.2: Hungarian Votes / Representatives in Various EU Institutions

Number of Hungarian Votes and/or Representatives in some EU Institution on 1 st May 2004	
Institution	Number of Hungarian votes / representatives
European Parliament	24
The Council of Ministers	12
The Economic and Social Committee	12
The Committee of Regions	12
The Court of Justice	1 <i>(in 2006: 2)</i>

Source: Permanent Representation of Hungary to the European Union (<http://www.hunrep.be>)

While the winner of the Hungarian governmental elections of 2002 was the MSZP in coalition with the SZDSZ and FIDESZ becoming the main opposition, the results of the EU parliamentary elections two years later, on the 13th June 2004 ended with a different outcome: The ruling MSZP was heavily defeated by the opposition, conservative FIDESZ and other conservative parties (Table 6.3).

Table 6.3: Results of the Elections to the European Parliament, 13th June 2004

Party	Seats in the European Parliament	Vote %
FIDESZ-MPSZ	12	47.4
MSZP	9	34.3
SZDSZ	2	7.7
MDF	1	5.3
Others	0	5.2
Total	24	99.9

Source: Európai Ügyek Hivatala (Office for European Affairs) <http://www.euhivatal.hu/tagallam2c.htm>

Political analysts were of the opinion that the absolute winners of this election were the two smaller parliamentary parties SZDSZ and MDF that managed "... particularly in the run-up to the European elections, to portray themselves as independent political entities that are capable of contradicting and criticizing their "big brothers," the Socialists and the FIDESZ, respectively." (Szabó, 2004, p.1) Despite the fact that the ruling MSZP lost the European Parliament elections to its main opposition the FIDESZ-MPSZ, Hungary's EU policy remained on the same course and with the same goals as it had been prior to the elections. Leading politicians from the two ruling and two opposition parties that won seats in the European Parliament agreed on 14 June 2004 that their parties should cooperate to best promote Hungary's national interests in the European Union.

The Hungarian Government identified three key priorities within its European policy in 2004:

1. Hungary should get involved in the internal circles of integration as soon as possible.
2. Hungary should contribute to the consolidation and stability of the enlarged Europe as a balanced, forward-focused participant.

3. By identifying its national priorities, Hungary should take initiatives in the interests of the further development of EU policies. (EU Communications and Public Relations Department of the Hungarian Ministry of Foreign Affairs, 2004)

It is an interesting phenomenon that despite the usually fierce debates on other internal affairs like the domestic budget, social policy, taxation, the government's goal, even with the collaboration of so many parties, was to follow a foreign policy based on national consensus. As Enikő Győri, EU expert of the FIDESZ expressed herself at a public forum between MSZP, SZDSZ and FIDESZ on Hungary's EU interests in April 2006: "Egyébként az EP képviselőink egészen úriember módjára művelik a magyar érdek képviselését Brüsszelben, ott egész jól együtt tudnak működni." ("By the way, our European Parliament delegates represent the Hungarian interest in Brussels in quite a gentleman's way; there they can work together pretty well.") (Kerekasztal Forum / Round Table Forum, 2006; *translated by thesis author*)

The government's EU policy is supported not just by the FIDESZ, but also by the other smaller opposition parties, like the MDF (Hungarian Democratic Forum). The fact that the division between the parties has rather a cultural (nation, religion, anti-communism) than an economic or political aspect, allows them to unite more easily when pursuing Hungary's foreign political goals (see earlier under Chapter 5.3). One area of slight difference between the parties was found in the question of how to account for the money received from the structural and cohesions funds, in terms of what proportion of the money should be devoted to infrastructure, human resources development and so forth. (See more on Hungary's position to the CAP in the following section 6.5.)

Another good example of the agreement between the parties on Hungary's EU policy can be found in the result of the parliamentary votes on the EU Constitution. Hungary's parliament ratified the constitution on 20 December 2004, by a vote of 275 'yes' to 20 'no', and 9 abstentions (304 votes). (Statistics of the Hungarian Parliament, 2004) Although a listing of the votes according to different factions was not available, this result shows a clear unity among them on EU issues. Finally, according to János Bóka, EU expert of the SZDSZ, "[h]a megnézzük a pártok választási programját, azokból kiderül, hogy mind a FIDESZ, mind az MSZP, mind az SZDSZ az Euró 2010-es bevezetését tűzte ki célul. Itt nincs is vita a pártok közt. ("[i]f we look at the campaign programme of the parties, we see that FIDESZ as well as the MSZP and SZDSZ set the goal of introducing the euro in 2010. There is no debate between the parties here." Kerekasztal Forum / Round Table Forum, 2006; translated by the thesis author) As economic indicators showed, however, the goal of 2010 for introducing the Euro was not a realistic one. (See more details on the introduction of the euro and Hungary's "euro-readiness" under section 6.8.)

Thus, it can be argued that Hungary, as a small state with scarce resources, has tried to achieve its EU and foreign policy goals by maintaining a consistent policy of unifying successive and different parties on common national interests, independent of the political position of its government. This process is again in line with the foreign policy features of small states as described in Small State Theory. Next, the European policy of the current Hungarian government will be explored in greater detail (Table 6.4).

As early as the Intergovernmental Conference in 2004, Hungary had begun to support the ideas of strengthening the democratic features of European integration and making the Community institutions more transparent and better organised. After the draft of the EU Constitution was rejected by France and the Netherlands, the Lisbon Treaty of 13

December 2007 was expected to provide the frames for the institutional reform of the EU. As the Commission President Jose Manuel Barroso expressed, the Lisbon Treaty aims at “...a more effective, democratic and transparent, and stronger EU.” (17 December 2007, [http://www. Euroactiv.com/en/future-eu...](http://www.Euroactiv.com/en/future-eu...)) Hungary was the first country to vote on this new treaty. The overwhelming majority of 325 members of parliament voted with yes, with only 5 no and 14 abstentions on 17 December 2007. The Lisbon Treaty’s special importance for small countries like Hungary is that the national parliaments receive a greater capacity to participate alongside the EU institutions. Another important aspect is that of subsidiary, which means that “...except in the areas where it has exclusive powers, the EU acts only where action will be more effective at the EU level than at national level.” (Bouda, 2008)

Hungary has also been keen to see the cooperation between certain groups of Member States become more open and inclusive to avoid sharply segregated groupings within the Union. Although the country regards NATO as a basic pillar of European security, it has also encouraged efforts to strengthen the European common foreign and defence policy. Hungary is of the opinion that national and international security should be undivided in the Common Foreign and Security Policy and that small countries should be included in resolving political, security and military issues. As a result of its geopolitical position, Hungary is particularly interested in the security, democratic stabilisation and well-established regional cooperation in the Carpathian basin. (Konrád – Vándor, 2004)

Another special priority for Hungary is the question of ethnic minorities. Because of the large number of Hungarians living in neighbouring countries, as discussed earlier in Chapter 5, the country seeks to foster the economic and social development of its neighbours and is a keen supporter of their accession into the EU.

Table 6.4: European Policy of the Government Programme, 2006

Title	MSZP-SZDSZ Government Programme, 2006 <i>New Hungary – Freedom and Solidarity</i> <i>The programme of the Government of the Hungarian Republic for a successful, modern and fair Hungary</i>
Topic	Successful European Nation - Active Foreign Policy (extract considering the EU only)
	<p>Deepening of the EU integration:</p> <ul style="list-style-type: none"> • Our international competitiveness is closely related to the development of the global competitiveness of the EU • We are interested in an EU that strengthens the integration intern, preserves its openness extern, and operates in a democratic, transparent and effective way. • Our goal is: <ul style="list-style-type: none"> - to speed up the full integration of the new member states - to continue with the development of the single market - establish the fundaments of a common energy policy - development of co-operation in internal and juridical affairs - the development of a new and adequate EU strategy - to continue with the development of EU institutional reforms • Active support of enlargement and neighbourhood policy of the EU (...) • Support of the strengthening of minority dimensions of the EU; the consideration of collective rights within the minority policy

Source: Hungarian Government, <http://www.meh.hu/kormany/kormanyprogram/program20060609.html>
MSZP-SZDSZ_Kormanyprogram_Fidesz_kormanyprogram(1).pdf, *translated by thesis author*

The final version of Hungary's future EU strategy for the period 2007-2013/2014 was published on the 1st August 2007.²⁰ While it is based primarily on the government's EU strategy from 2006, it is also the result of the contribution by different parties, experts and public submissions. The principles of the Government's European policy are determined by the community of values of the Member States, the wellbeing of European citizens and their security in the broadest sense. Based on these principles, four priorities were formulated with special regard on Hungary's interests as an EU Member State:

²⁰ 2013-2014 will be the start of the next programming period of community policies and the end of the next European Parliament/Commission cycle.

1. Unity and Cooperation;
2. Modernisation and Competitiveness;
3. Consolidation and Openness; and,
4. Security.

In addressing the goal of ‘Unity and Cooperation’, Hungary has given priority to its membership of both the Schengen-Area and the Euro-Zone. Under the aim of ‘Modernisation and Competitiveness’, the most important issues for Hungary are the EU wide guarantee of the ‘Four Freedoms’, the long-term preservation of the ‘Cohesion Policy’, the development of infrastructure, and the strengthening and widening of the ‘Common Research and Development Policy’. ‘Consolidation and Openness’ means a desire to foster a stronger cohesion amongst EU members:

...we are one of those countries which consider the Constitutional Treaty as the guarantee of the EU’s unity, a tool which emphasizes the community’s interest, and puts no one at a disadvantage. So we are of the opinion (...) that the final objective must be the strengthening of the unity. On the subject of the institutions we adopted a post of restrained compromise. (Hovanyecz, 2007, p.3)

Hungary also has a special interest in the integration of the Balkan area and has urged for Croatia’s earliest possible accession to the EU. Finally, Hungary advocates the deepening of collaboration under the Common Foreign and Security Policy (see Table 6.5 for more details.)

Table 6.5: Four Priorities of Hungary's European Union Policy**1. Unity and Cooperation**

"...Hungary's goal is to actively contribute to the Community's efficient, democratic and transparent functioning. Hungary wishes to be part of the co-operations serving the perspectives of the Union's political integration. Hungary will join the Euro-zone and the Schengen zone as soon as possible."

2. Modernization and Competitiveness

"...it is necessary to have a successful Union facing the global competition of the world economy, guaranteeing the foundations of the European social model and providing for the convergence of its Member States." (...)

"The Government's reform policy, its measures improving the country's competitiveness and its efforts contributing to the global success of the community of Member States function as a guideline in the debate on the European Union's future. Hungary contributes to the shaping of community policies and when necessary to the establishment of new ones."

"Hungary wishes to preserve the EU's long term cohesion policy aiming at the economic development of regions and Member States and providing for the strengthening of the competitiveness of the whole Community. It is of high importance that the standards of living and the quality of life of the countryside in Hungary improve, and the Union's agricultural policy directly contributes hitherto and remains a community competence."

"There should be a sustainable common energy policy based on solidarity, strengthening the security of supply, supporting the development of infrastructure. Increasing competitiveness is a highly important element of innovation; therefore the common research and development policy needs to be widened and strengthened. In order to create a European Union successful in global competition Hungary gives high significance to the accomplishment of the four freedoms."

3. Consolidation and Openness

"It is our interest to contribute to the internal cohesion of the Union and to the strengthening of its ability to act politically at the global stage. In addition, it is our fundamental interest that the Union preserves its openness and provides for a genuine European perspective for the European countries sharing the same values."

"Hungary has a special mission to support the European integration process of the Balkan area. "

4. Security

"Hungary's objective is to establish the area without internal borders based on freedom, security and justice. Hungary will play an initiating role in making the Community functioning without any internal or external threats, within safe external borders. Hungary is interested in the deepening of cooperation between Member States in the area of common foreign and security policy."

Source: Hungarian Government, <http://www.meh.hu/kormany/kormanyprogram/program20060609.html>,
translated by thesis author

In order to truly foster its own interests, small countries like Hungary must also offer their negotiating partners both within and outside the EU potential benefits. It is, therefore, of high importance to identify the areas that might be of the highest priority for a small

country. These can be generally – without order of importance – described as the following (Grüber, 2002, p.178):

- Economic resources and competitiveness;
- Geo-strategic position and military potential;
- Cultural acknowledgement;
- Internationally appreciated leader personalities;
- Innovation ability, excellent research and development possibilities; and,
- Successful strategy to enforce its interest in international organisations and multilateral forums.

Beside these areas, Hungary has also identified the following special areas in which it believes it enjoys a comparative advantage in expertise or experience:

- Experiences and lessons drawn from its social and economic transformation;
- Trade, diplomatic and military experiences, relations with Russia;
- Trade, diplomatic and military experiences, relations with Balkan states;(Konrád – Vándor, 2004, p.14)
- Relations with other developing countries (esp. Vietnam, Mongolia, Kyrgyzstan, Ukraine, Palestine Authority) and least developed countries (Ethiopia, Yemen, Cambodia, Laos) (Hungarian Ministry of Foreign Affairs, 2006, p. 2);
- High level of education and research; and,
- Experience in ethnic minority affairs.

New Zealand diplomacy must therefore evaluate whether any of these areas might be of interest for New Zealand and if so, whether it is worthwhile incorporating some of them

into the topics of discussions in future diplomatic meeting between New Zealand and Hungary.

While Hungary's involvement in the policy making procedures of the EU may be evaluated as successful during its first two years of membership, the country also earned criticism in 2007 for its low participation in some common projects, especially in the Mediterranean Policy and in the implementation of the Cotonou Agreement. In the following section, some of the criticisms voiced on the homepage of the United Nations in Hungary are discussed (Bakonyiné, 2007).

According to Bakonyiné, Hungary has been involved in a large number of independent projects across a geographically wide region which has led to inefficiency in resource allocation, both from a monetary and practical context. The development of aid packages was dominated by 'thinking in projects terms' throughout the planning phase without a prior global analysis for the selected country. According to criticism, Hungary also failed to consider the involvement, project results, and suggestions of other donor countries or institutions in the region in the planning phase of its projects. When launching its projects and tenders Hungary neglected the inclusion of issues of growing significance like human rights, democratisation, and environmental protection; requirements that have become standard practice in other Western nations' aid negotiations.

How Hungary could fail in these first three areas is difficult to understand if the country's own experiences and critiques on Western consultants and non-country specific 'solution packages' in the 1990s (see Chapter 5) are remembered. In addition to learning from these failures, however, Hungary must also re-evaluate the value of humanitarian and

development policy as an important aspect of its own foreign policy. Implementing tailored projects successfully is not just beneficial for those in need but it also raises the international reputation of the aid provider as well. (See more on Hungary as aid provider in Section 6.6 ‘Hungary’s foreign policy’).

Hungary played an active role in the work of the Convention and in the Inter-governmental Conference in 2003 and 2004. It supported the view that the constitutional agreement should:

- define the major rights and obligations of the Member States;
- define clearly the competencies provided by the Member States to the EU;
- strengthen the role of the national parliaments; and,
- include basic human rights. (Konrád – Vándor, 2004, p.15)

A significant achievement for Hungary was that the rights of ethnic minorities were resolved and incorporated in-line with Hungarian proposals. Hungary was also satisfied with the level of financial aid it was to receive under the Cohesion Policy between 2007 and 2013: 22.6 million euro, approximately 3.5% of the country’s GDP. An additional 6 million euro is to be devoted to the development of Hungarian agriculture, and another 3 million euro to rural developments by 2013. (EU Communications and Public Relations Department of the Hungarian Ministry of Foreign Affairs, 2006, p.3)

The following list includes some examples of EU policy areas which were either initiated by Hungary or were based mainly on Hungarian proposals:

- Registration of chemicals (REACH): principle of one material-one registration (OSOR);

- Policy on the water quality of public baths;
- Evaluation and treatment of floods;
- Policy on the waste management of exploitation industries (giving guarantees against the negative impacts of mine exploitations in neighbouring countries);
- Preferential VAT rates: thanks to the joint efforts of Hungary, Czech Republic and Poland in case of building social accommodation under preferential VAT rates it remains the privilege of Member States to determine entitlement;
- Hungary together with the four Visegrád states played a leading role in the development of a new evaluation methodology that has enabled new Member States to join the Schengen Treaty earlier than expected.
- Visa policy: the principle of reciprocity was weakened for most new Member States concerning travel visas to Australia, USA and Canada. Hungary together with other new Member States argued successfully that the European Commission should negotiate jointly upon their behalf with Australia, USA and Canada.
- Hungary made continuous efforts to work out an EU wide common data regulation policy for co-operation between the police and justice in criminal cases. (Ibid , 2006, pp.4-5)

This list indicates that even small countries are able to safeguard and foster their interests within the EU when they act in an open and cooperative manner; in return they are keen to offer their assets in other areas for the mutual benefit of other Member States. From the examples given above it is obvious that some other new Member States have similar problems and interests to Hungary. The EU calls such groups of states “like-minded-nations”, which often also share a common history or geographic boundaries. A good example is the lengthy cooperation between the Benelux states. This does not mean,

however, that these countries do not have conflicting interests in certain cases or do not back policies of other countries. In the case of Hungary, regional cooperation is fulfilled within the framework of the Visegrád States which incorporates Poland, Czech Republic, Slovakia and Hungary – often referred to as V4. Hungary remains, however, open to other possible coalitions according to its interests in different policies. Some of the Hungarian aspects when looking for co-operation partners are:

- Principal priorities of Hungary (strengthening of multilateralism; equity; effective operating system);
- Hungary's goals concerning the Constitutional and the Lisbon Reform Treaty;
- Hungary's economic situation, strategic goals (catch up with the EU15 Member States, etc.);
- European values (cultural, social);
- Geographic situation of the country and challenges that are posed (Eastern border, migration);
- Security and defence policy (energy supply, drug problem, etc.); and,
- Current internal problems and their effects (middle-term fiscal policy, intensity of law construction, energy prices, and security zone). (Gordos, 2005, p.80)

In the following section, the CAP is discussed, a particularly important EU policy area in which country groupings vary quite dramatically, and the interests of EU Member States often diverge.

6.5 Hungary and the CAP

From New Zealand's position in particular, it is worth looking in greater detail at the Hungarian interests in the CAP of the EU. To provide a context, the following section provides information on the current structure and the problematic and future development goals of agriculture in Hungary. Table 6.6 compares Hungarian economic, demographic, and agricultural figures with that of the EU as a whole; Figure 6.2 provides an overview of the distribution of different farming types within the agricultural sector.

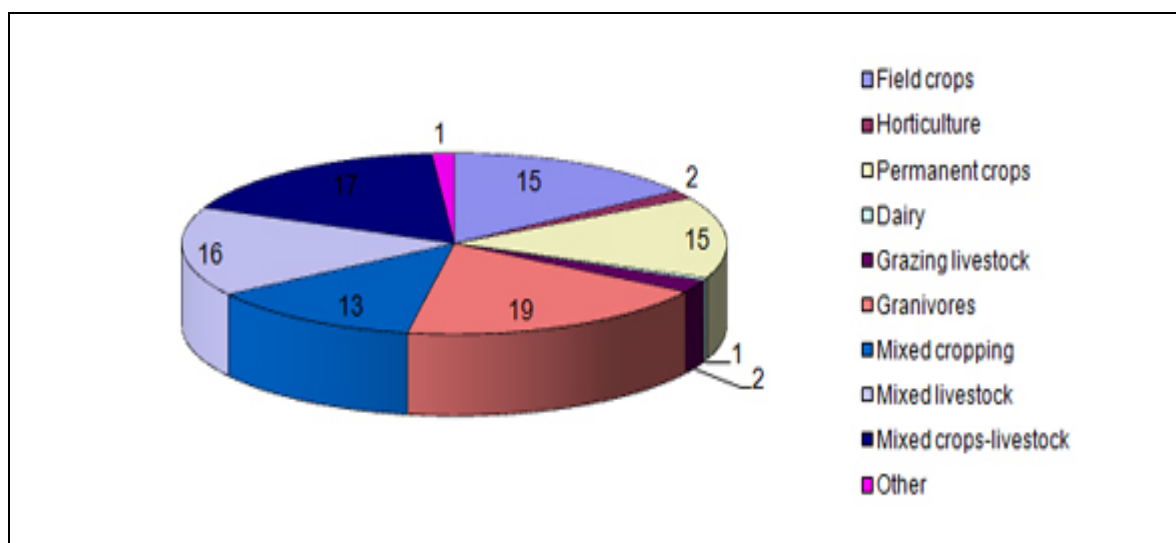
Table 6.6: Hungarian Agricultural Indicators in Comparison with EU-25

Hungary	Comparison with EU-25
Population, 2005: 10.1 Mio	2.2% of population in EU-25
Population density, 2003 (inh./km ²): 109	118 in EU-25
GDP/capita, 2005 (PPS): 14,500 Euro	62% of GDP/capita in EU-25
Share agriculture in total employment, 2002: 7%	5% in EU-25
Share utilized agricultural area in total land area, 2003: 65%	46% in EU-25 in 1998
Average farm size, 2005: 26(ha)	19(ha) in EU15
Number of farms, 2005: 155,400.	2.4% of farms in EU-25

Source: <http://www.rlg.nl/cap/hungary> (Council for the Rural Area, Holland)²¹

²¹ The Eurostat-figures differ from the national statistics. As to agricultural figures these differences are considerable due to other definitions of farm and types of farms. The average farm size is according to Hungarian national statistics (2006) 3,5 ha. The number of agricultural enterprises is 7900 and the number of private farms is 707.000. 48% of the farmers produce for the market., Source: <http://www.rlg.nl/cap/hungary> (Council for the Rural Area, Holland), based on: Agriculture in Hungary - Farm Typology published by Hungarian Central Statistical Office.

Figure 6.2: Distribution of Farming Types 2005 (% of Total)



Source: <http://www.rlg.nl/cap/hungary> (Council for the Rural Area, Holland)²²

The following analysis is based on “The New Hungary Rural Development Programme” document prepared for the 2007-2013 period pursuant to Art. 15 (1) of Council Regulation (EC) 1698/2005 on the support for rural development by the European Agricultural Fund for Rural Development:

According to the criteria of demarcation already applied in the previous programmes (unfavourable demographical situation and age structure, and underdeveloped economy and infrastructure), 87% of Hungary was qualified as rural area in 2003 including 96% of the country’s settlements, and providing home for 47% of the total population. (2007, p.13)

The economic contribution of agriculture to Hungary’s GDP (3.1% in 2004) lags far behind the industry and services sectors, which exceed the average rate of the national economy. This also reflects the trend of economic restructuring characterised by the gradual displacement of agriculture. Between 1991 and 2004, and on a national basis, individuals involved in different agricultural activities declined by more than 50%. On the other hand, compared with the national average, agriculture, including forestry, game and

²² According to the Hungarian statistics 24% of the farms are arable, 12% permanent crops, 1,41 % horticulture, 0,45 % dairy cattle, 0,1 % beef and mixed cattle, 2% sheep and goats, 5,3 % pigs, 4,45% poultry, 15,2 mixed livestock, 12,7 mixed cropping, 17,1% crop and livestock. These figures consider 714 792 agricultural enterprises and private farms. (Ibid)

fisheries management has had a significantly higher role in the economy of rural areas. Despite its low quantifiable contribution to the GDP, agriculture has played a decisive role both economically and socially in the lives of the rural population, and it is in fact the exclusive means of livelihood in many settlements, especially those living in critical economic situations. Thus, the role of agriculture in the national economy in Hungary is still considerable, despite the significant decline. (Ibid, p. 14)

The agriculture share plus the food industry in the overall exports of Hungary have significantly declined over the past decade (from 22.7% to 7.2%), and yet, national investment in agriculture increased between 1994 and 2005, mainly in the form of technical developments and new equipment purchases. (Ibid, p. 16)

To counterbalance significant surpluses in crop production, the Hungarian rural development programme identified five policies for an effective agricultural restructuring:

1. The production and utilisation of biomass would ease Hungary's unhealthy dependence on energy imports (70% of the country's energy needs) and would provide farmers with an alternative income. The use of biomass for energy purposes may be instrumental in fighting climatic changes as well;
2. Investments in animal farming to reduce the excess quantities arising from cereal production;
3. Forestry: increasing the number of forests would reduce the size of areas used for cropping, and would secure alternative additional incomes;
4. Horticulture – as based on the favourable conditions in agricultural production – may represent an alternative solution for the diversification of agricultural

activities, as well as the enhancement of the income-generation capacity of the producers concerned; and,

5. The development of infrastructure, in particular investments in logistics would strongly promote the market access of agricultural products and commodities.(Ibid, p.20)

In addition to the need for agricultural restructuring, the improvement of soil quality was identified as an important agro-environmental task: 37.7% of all arable land outside city limits were classified as “less favourable areas” prior to Hungary’s accession to the EU. (Ibid, p.28)

Another area of rising international importance is that of organic farming. The number of organic farms in Hungary has risen rapidly in recent years - from 281 in 1997 to 1610 in 2004. (Ibid, p. 35) Due to the lack of organisation in the internal market and higher consumer prices for organic products, most of the country’s organic farms, however, continue to focus on exports: 95-97% of their certified and branded organic products go to Western Europe, particularly to Germany, Switzerland, the Netherlands, Austria and, to a lesser degree, France and the UK. In addition to their export activity, 31 organic farms also offer visitor facilities and accommodation under the “rural tourism” scheme.²³ Thus strengthening this sector may provide important contribution to rural development in Hungary.

²³ There is a similar scheme in New Zealand – whereby backpackers etc can go and live/work on organic farms in New Zealand and they get their board and food in exchange for working on the farms. If there was a reciprocal working holiday scheme between the two countries, there could be some sort of small-level exchange programme in this area too.

In summary then, it can be seen that Hungarian agriculture is still in need of financial aid from the CAP. Being a net recipient, the country's position is rather conservative (indeed in 2005 it sided strongly with CAP reform opponents.) The CAP as it is considered an important means of financial resources for redeveloping the country's agricultural sector (3.8 million euro for the period 2007-2013 from the CAP). On the other hand, as the examples above have shown, the goal of these agricultural financial injections is not to preserve the status quo, but rather to change the structure of agriculture and make it more competitive in order to raise the living standards in rural areas. Other important aspects in this process are the implementation of a stronger environmental protection policy and the search for alternative energy sources to reduce the country's dependence on energy imports.

6.6 Hungary's Foreign Policy

In addition to gaining insight into Hungary's EU policy, it might also be of interest for New Zealand to look at how the country's non-European foreign policy has changed since EU accession. The following section combines information from interviews with representatives of the Hungarian Ministry of Foreign Affairs with official announcements and publications of the Ministry between 2004 and 2007. The section begins with a description of the most important features of Hungarian foreign policy beyond the EU, and closes with a short evaluation of the possible common interests with New Zealand.

The objectives of Hungarian foreign policy worldwide are to serve the peace, security and welfare of the nation, foster the success of European integration, good relations with our neighbours, and to participate in international cooperation for staving off global threats. (Hungarian Ministry of Foreign Affairs, 2006, p.1)

Globalisation

Hungarian foreign policy considers effective multilateralism, cooperation at multilateral forums and enforcing international law as the most appropriate instruments for coping with global challenges. Hungary's commitment to multilateral forums and to international law is reflected in the number of organisations the country has joined (Table 6.7). These organisations are of differing value for Hungary but some might be of special importance for New Zealand where Hungary's neutral or supportive position could be useful. The country also stresses the special responsibility of developed countries to be active in searching for solutions to global problems (such as ecological, health, security, and social challenges).

Hungary and its neighbours

Hungary has seven neighbours: Austria, Slovakia, Ukraine, Romania, Serbia, Croatia, and Slovenia. This constitutes a large number for the size of the country and requires the ability to cooperate but also to compromise as well as the ability to mediate. This task is further complicated by the fact that large numbers of Hungarian communities (approximately one third of the 'true' Hungarian nation) are understood to live in the territories of the neighbouring states, a consequence of the peace treaties of World War I. As these groups have preserved their Hungarian identity and culture, Hungary is especially interested in improving their situation and in providing the extension and codification of their rights in international law:

While respecting the universally accepted principles of the protection of minorities (Hungary) lends support to the endeavours of the Hungarian minority outside the borders of Hungary to preserve their communities, including their wish for autonomy in line with European principles based on a consensus between the majority and the minority. (Hungarian Ministry of Foreign Affairs, 2006)

Table 6.7: Hungarian Membership in International Organisations

Australia Group,
 British Association for Central and Eastern Europe (BACEE),
 Central and Eastern Europe Free Trade Association (CEFTA),
 COPUOS,
 Euro-Atlantic Partnership Council (EAPC),
 Economic Commission for Europe (ECE),
 European Union (EU)
 Food and Agriculture Organisation of the United Nations (FAO),
 Inmarsat,
 International Atom Energy Office
 International Bank for Reconstruction and Development (IBRD),
 International Development Association (IDA),
 International Energy Agency (IEA),
 International Finance Corporation (IFC),
 International Labour Organisation (ILO),
 International Monetary Fund (IMF),
 International Maritime Organisation (IMO),
 International Committee of Red Cross (ICRC),
 International Telecommunication Organisation (ITU)
 International Organisation for Migration (IOM),
 International Organisation for Standardisation (ISO),
 International Olympic Committee (IOC),
 International Whaling Commission
 Interpol,
 Non-Aligned Movement (NAM) (guest),
 North Atlantic Treaty Organisation (NATO),
 NEA,
 NSG,
 OAS (observer),
 Organisation for Economic Cooperation and Development (OECD), Organisation for Co-operation and Security in Europe (OSCE),
 Partnership for Peace (PfP),
 United Nations (UN),
 UNESCO,
 UNFP,
 UNHCR,
 UN HABITAT,
 UNICEF,
 United Nations Environmental Protection Programme (UNEP),
 United Nations Industry Development Organisation (UNIDO)
 United Post Union (UPU)
 UNOCD,
 Wassenar Agreement
 Western European Union (WEU) (associate),
 World Heritage Committee (WHC)
 World Health Organisation (WHO),
 World Intellectual Property Organisation (WIPO),
 World Meteorological Organisation (WMO),
 World Trade Organisation (WTO).
 Zangger Committee,

Source: <http://www.eu2005.gov.uk> – UK EU Presidency 2005, Hungary; and <http://kulugyminiszterium.hu>

Hungary supported Romania's EU accession and under the EU's Thessaloniki Programme and the country has also provided integration assistance to Serbia and Montenegro and to the Western Balkans states.

Hungary's largest neighbour is Ukraine, perhaps in opposition to the more 'mainstream' approach towards Ukraine's EU prospects, Hungary also "...stands for Ukraine's European perspective"(Ibid). Despite the growing number of bilateral visits and agreements between Ukraine and the EU (see a comprehensive list at <http://www.delukr.ec.europa.eu/page4824.html>) since the 2004/2005 'Orange Revolution', the number of advocates for Ukraine's full EU membership is only slowly increasing. In addition to Hungary, a number of newer EU Member States have also offered their help to Ukraine to implement the 2005 EU-Ukraine Action Plan (Poland, Czech Republic, Slovakia, Romania), while from the EU15 Member States, only Germany and France seem to be interested in providing extra support (see interview with Ian Boag Ambassador, Head of the Delegation of the European Commission to Ukraine and Belarus, 14 December 2006 at <http://www.delukr.ec.europa.eu/page41757.html>). Hungary's (and the Central European region's) pro-Ukrainian policy is easier to understand when we consider the negative experiences of being border countries between 'East' and 'West' for over 45 years. Out of security and economic concerns, Hungary would far prefer Ukraine as an EU Member State, adhering to the EU legislation, rather than a Ukraine which would potentially serve as the Western political and security border of Russia. Furthermore, from Hungary's perspective, bringing Ukraine into the EU-fold would also mean all ethnic Hungarians – assuming Croatia and Serbia also eventually obtain EU membership – under one umbrella where national borders do not hinder the free move of people and goods.

The careful, rather reserved position of the EU on Ukraine's future membership is well illustrated in the closing sentence of the Joint Statement of the most recent EU-Ukraine Summit of 14 September 2007: "EU leaders welcomed Ukraine's European choice and emphasised that further internal reforms and introduction of European standards would bring Ukraine closer to the EU." (Council of the European Union, 2007, p.4) The use of the phrase 'bring closer' does not necessarily indicate an intent to 'bring inside', and thus arguably leaves scopes for future questions on how close this relationship should and will be.

United States and Canada:

Hungary's relations with the USA have both security and economic features. While Hungary is interested in strengthening the European Security and Defence Policy, it "...continues to regard the NATO as the basic pillar of European security." (Konrád – Vándor, 2004, p. 14) Hungary joined NATO in 1999. The country also seeks to encourage cooperation with Canada and the USA in the fields of science, social and human contact as well as trade. The large size of the Hungarian community in North America has made a valuable contribution to strengthening relations between Hungary and Canada and the USA.

Asian and Pacific countries:

Hungary also wishes to foster its relations with Asian and Pacific countries, especially Japan, China and, in the last decade, Australia. Hungary has been an interested participant of the ASEM (Asia-Europe Meeting) process since 2005. On the other hand, according to the information received from the International Development Co-operation Department of the Hungarian Ministry of Foreign Affairs on the 6th March 2008, Hungary's limited

financial means do not enable the country to include such distant region as the South Pacific in its development programme.

Arab countries:

Hungary's connections to the Arab states reach back into the 1970s when Hungary was a substantial arms exporter to those Arab states within the Soviet sphere of influence (Syria, Iraq, and South Yemen). The countries of the Middle East region are not just important energy suppliers for Hungary but are also increasingly important markets for Hungarian products (and in particular, its 'high tech' products). Tourism in both directions has also prospered in the last decade. "Hungary is an active participant of the Barcelona Process, the Euro-Mediterranean dialogue - representing intercultural understanding - between the EU and the region." (Ibid)

Countries of Latin America:

Hungary also participates in the EU's Latin-American policy although its financial contribution is still modest. The Hungarian Government has mentioned its connection to Hungarian expatriates in Latin America as a special asset, however no information could be obtained on the extent to which these connections are utilised.

Africa:

Hungary participates in Africa through the Cotonou Proces and contributes to the international development assistance in Africa. However, in common with most of the Member States, Hungary provides only minimal financial support for the Third World despite a commitment to raise its % of GDP for overseas development aid contribution substantially by 2015 (see below).

International Development Co-operation:

To fulfil its commitments to the UN Millennium Declaration and Millennium Development Goals, Hungary has modified its development policy in such a way as to allow it to concentrate on countries where it can utilise its comparative advantage and special knowledge. The country identified four target groups of the Hungarian development activities:

1. Strategic partners: Serbia and Montenegro, Bosnia-Herzegovina, Vietnam;²⁴
2. Other partner countries: Macedonia, Moldova, Mongolia, Kyrgyzstan, Ukraine, Palestine Authority;
3. Least developed countries: Ethiopia, Yemen, Cambodia, Laos; and,
4. International commitments: Afghanistan and Iraq. (Hungarian Ministry of Foreign Affairs, 2006, p.2)

Being a small country with limited financial resources Hungary has tended to concentrate its assistance on less capital-intensive activities where it has a comparative advantage. Some of these are:

- Sharing political-economic transition experiences (creating conditions for a free market economy, etc.);
- Knowledge transfer (methodological procedures, software, organisational and planning methods, etc.);

²⁴ According to a Hungarian diplomat responsible for Vietnam at the Ministry of Foreign Affairs in 2005, Vietnam was the country where the most non-Hungarian people spoke Hungarian in the world. Even the mayor of the Vietnam's capital was fluent in Hungarian, which is a unique advantage in fostering bilateral relations. This interesting fact can be traced back to the intensive student exchange programmes between Hungary and Vietnam, and high number of invited Vietnamese guest workers in the 1970s and 1980s in Hungary. (Vietnam belonged to the 'friendly countries' during the Cold War.)

- Education promotion (university and postgraduate), training of experts and technicians, organising distance learning;
- Developing health services (planning, equipping, and running of hospitals and polyclinics, combating epidemics, etc.);
- Agriculture (plant and animal breeding methods, seed improvement, plant hygiene, freshwater fish breeding, forestation programmes, farm development plans, biotechnology, specialist training, food industry);
- Contributing to water management and water resources development;
- Developing general infrastructure;
- Helping general and transport engineering activity; and,
- Providing technical advice on environment protection.(Ibid, pp.2-3)

As discussed earlier, the development projects launched by Hungary had some limitations when measured against international standards. To improve the quality and implementation success rate of these projects, the Hungarian foreign policy diplomats expressed a keen interest in New Zealand's experience as a recognised aid provider. This is a foreign political area in which New Zealand could develop a positive reputation not only with Hungary, but in other new EU Member States as well. (See more on this in Chapter 8.)

Another important part of Hungary's foreign policy which is similar to that of New Zealand, is to boost its international trade. The following section therefore provides an insight into Hungary's foreign trade policy during the three years since the country's EU accession.

6.7 Hungary's Foreign Trade between 2004 and 2006

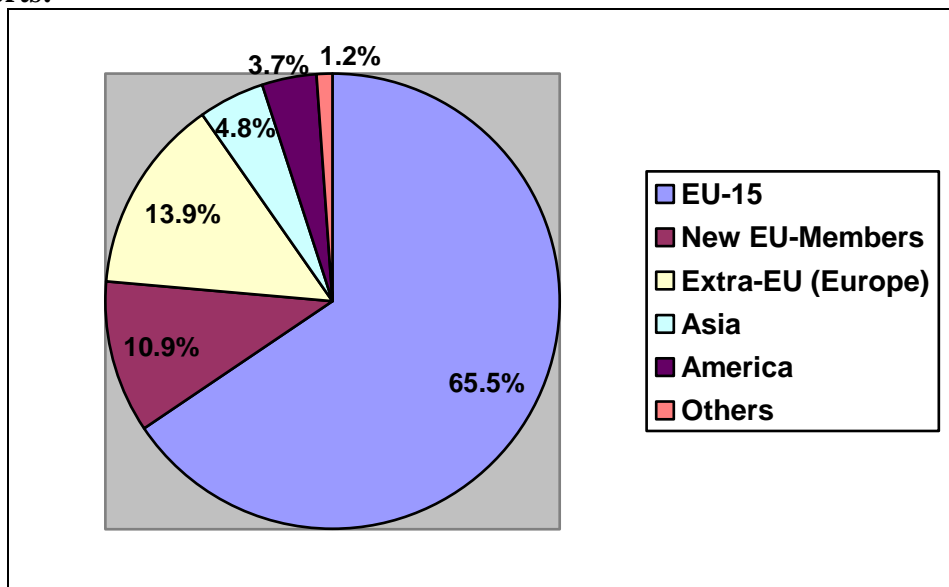
Similarly to New Zealand, having a relatively small internal market, the success of the Hungarian economy relies heavily on the country's export opportunities. To be able to export high quality products, the modernisation of the country's industry was inevitable, and, as the country is low on financial capital, foreign investments have played and continue to play a vital role in this process.

Foreign trade statistics denote that more than 75% of all Hungarian exports are directed to the EU and almost 68% of all commodity imports come from the EU. (Eurostat, 2008, pp.151-166) Hungary's exports and imports are also geographically very concentrated making Hungary highly dependent on German market conditions. (Figures 6.3a and 6.3b highlight the foreign trade turnover by trading partners.)

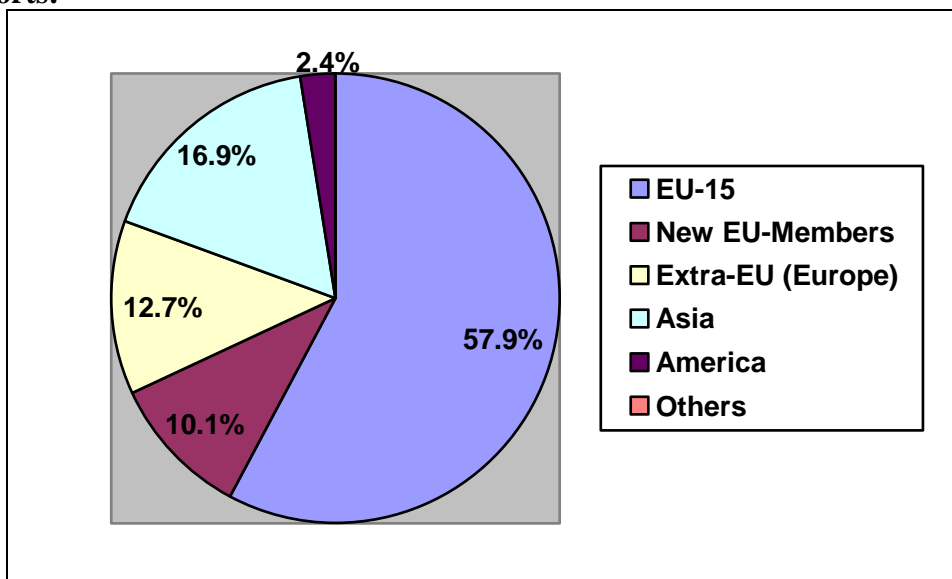
Germany had a 39.3% share of Hungary's intra EU-25 exports (29.2% share of all Hungarian exports), and 40.2% of Hungary's intra EU-25 imports (27.0% of Hungary's overall imports) in 2006. (Ibid, pp. 310-313) In terms of trade volume within the EU-25, Italy (export 7.5%, import 6.8%), Austria (export 6.6%, import 9.2%) and France (export 6.7%, import 7.0%) are the next most important partners. Significant export markets outside the EU for Hungarian products were the USA (extra EU-25 export share 10.6%) and Russian Federation (10.5%). Non-EU imports came mainly from Russia (25.1% of extra EU-25 imports), China (21.1%) and Japan (7.9%) in 2006. (Ibid, pp. 314-315)

Figure 6.3: Hungarian Foreign Trade Turnover 2006 by Trading Partner

a) Exports:



b) Imports:

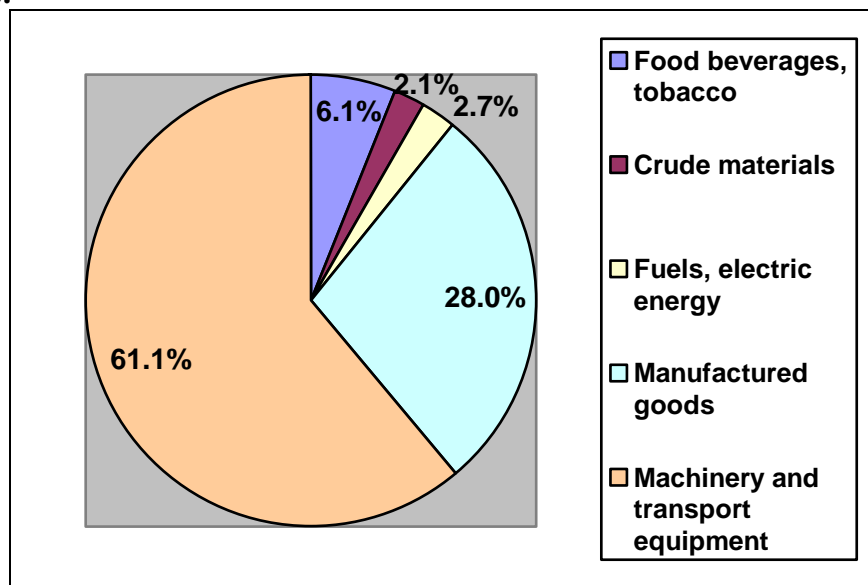
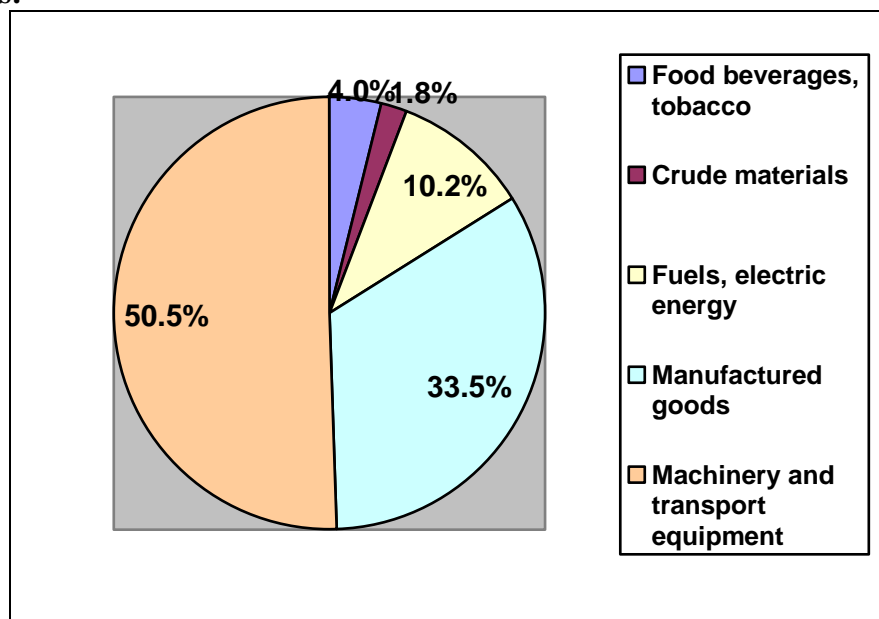


Source: Tóth, Péter: Overview of the characteristics and current trends of Hungarian external trade, Hungarian Ministry of Economy and Transport, 2006, p.2

During the process of Hungary's accession, countries of an agricultural character (including New Zealand) paid great attention to Hungarian agriculture. From a Hungarian point of view, this attention (and the fear of prospective Hungarian agro-export invasion) would appear to be unjustified, as agriculture counts for only 5% of Hungary's GDP and a mere 5-6% of the population work in this sector. (Lakatos, 2004, p.21) Before Hungary's EU accession, few would have guessed that today Hungarian foreign trade would be characterised by the dominance of industrial goods: while machinery and transport equipment made up 62.3% of all exports in 2006, agricultural products exported worldwide had a share of just 5.2% in 2006. (Eurostat, 2008, pp. 150,151,158,159) Figure 6.4 gives a detailed analysis into the most important commodity groups in Hungarian foreign trade as at 2005.

The most important products within machinery exports are telecommunication equipment, electric machinery devices, power generating machinery and equipment, road vehicles and office and automatic data processing machines. Manufactured goods include mostly pharmaceuticals and other chemicals, metal processing, textile and clothes industry. The composition of imports is similar to that of exports but shows a higher weight of unfinished goods.

In summary then, it can be seen that while Hungary is interested in modernising and developing its agricultural sector, the country's strength lies firstly in the 'high tech', value-added machinery and equipment industry. This is also supported by the country's high level of training and education.

Figure 6.4: Hungarian Foreign Trade Turnover by Commodity Group 2005**a) Exports:****b) Imports:**

Source: Tóth, Péter: Overview of the characteristics and current trends of Hungarian external trade, Hungarian Ministry of Economy and Transport, 2006, p.2

6.8 Hungary's 'Non-euro Readiness'

Since the collapse of communism, Hungary has attracted significant foreign investment and has grown at a rate of higher than 4% a year, and the country was able to boost itself by working successfully towards the Maastricht criteria. (European Commission, 2006,

p.1) Nevertheless, EU Economic and Monetary Affairs Commissioner Joaquin Almunia stated at a conference in Budapest in November 2006: “A gradual and continuous convergence and the fulfilment of all Maastricht criteria is necessary to introduce the euro in any EU Member State. Hungary meets none of these...” To answer the question about the reasons for these negative economic indicators one should explore the basic influences of the Hungarian state-budget problem in more detail, namely: social tensions concerning declining living standard, structural and labour market problems as well as pre-election party policies.

The economic transition period of the 1990 was paired with a set back of the living standard, as set out in more detail under chapter 5.5. The average living standard returned to the 1989 level only in 2000 (Hungarian Statistical Office, 2002). The country struggled also with an ongoing labour market problem. The presence of large trans-national corporations and intense market competition led to the bankruptcy of many small and middle sized enterprises. As a consequence in 2007 only 56% of the working age population were active in the labour market. The remaining 44% had difficulties to enter the labour market either because of the economic weakness of the geographic region or because of the lack of skills required. (Hungarian Statistical Office, 2008) Rising poverty and health problems demand a higher social expenditure for which the existing tax base turned out to be too small. Consequently a wide spectrum of the population became increasingly frustrated over the last decade and demanded a greater social protection from the Government. Having already a higher tax rate than its neighbours, a further rise could distract foreign direct investments, which provide an important background of the economy.

Thus to win the national elections both in 2002 and in 2006 the parties were forced to promise social improvement for the poor and tax cuts for the rich, especially because of the supporters of all main parties represented a wide social range of the society. Further, party identification of the Hungarians can be described as relative low: around 30% of the population have no party preference at all. (Enyedi, 2005, p.189) This means, that the voters move between the parties according to their economic and social promises during the elections. In order to win the elections both main parties (FIDESZ and MSZP) initiated and introduced such social improvements which lacked any economic base in the country. (E.g. 50% increase in the salaries of the healthcare and education personnel in 2002; 0% income tax on minimum wage as well as drop of the highest tax level from 40% to 36%; drop of VAT rate from 25% to 20%; non-refundable state subsidies for building of new homes for young families, etc.)

Short after winning the election in 2002 MSZP Minister President Gyurcsány revealed in May 2006 at an internal party meeting that the country's public sector was in such debt that it was no longer manageable with the 'vote-winning' government policy created before the elections of 2006 (which included wage rises and tax cuts). Gyurcsány also acknowledged that the public was misinformed about the extent of the problems of the state budget in order to secure the re-election of the government and allow time for the implementation of drastic reforms aimed at putting Hungary's economy (especially state budget) back on the right track. Apart from the question of political ethics and tactics (where, in a rather Machiavellian approach, the ends apparently were seen to justify the means), a discussion which would go beyond the scope of this research, this approach has also created severe implications for Hungary's international credibility, economic performance and euro-readiness for the following years.

Hungary submitted its revised convergence programme to the EU on 1 September 2006 (Table 6.8). The new figures for the officially acknowledged convergence programme included as many articles from the government's expenditure as possible, in contrast to the previous government policy of withholding. This greater transparency meant that year 2006 ended with "... one of the highest general government deficit/GDP ratios in the world, surpassing 10%..."(Richter 2006, p. 1), instead of the maximum allowed by the Maastricht criteria of 3%. Public debt exceeded also the Maastricht limit of 60% of the GDP reaching 68.5% in Hungary in 2006. (Ibid, p.2)

Table 6.8: Summary of the Hungarian Convergence Programme 09/2006

Highlights of the updated Hungarian convergence programme						
	2004	2005	2006	2007	2008	2009
GDP growth (in real terms, in %)	5.2	4.1	4.1	2.2	2.6	4.1
Growth (+) or decline (-) in components of the GDP (in %)						
Private consumption	3.6	1.7	3	-0.7	0.6	1.5
Government consumption	2.1	-0.4	1.7	-1.8	-3.8	1.4
Gross fixed capital formation	8	6.6	6.6	2.1	3.7	7
Changes in inventories and net acq. of valuables	-0.6	-2.3	-3.9	-3.8	-3.8	-3.6
Export of goods and services	15.8	10.8	12	10.9	9.9	9.4
Imports of goods and services	13.5	6.5	9.5	8.5	8	8.8
Consumer price inflation (in %)	3.7	6.2	3.7	6.2	3.3	3
General government, selected items (as percentage of GDP)						
Total revenues	43	43.1	42.4	44.2	44.8	45.4
Total expenditure	49.6	50.6	52.5	51	49.1	48.6
Net lending/borrowing	-6.6	-7.5	-10.1	-6.8	-4.3	-3.2
Interest expenditure	4.4	4.1	3.8	4.4	4.1	4
Primary balance	-2.2	-3.4	-6.3	-2.4	-0.2	-0.8
Gross public debt	60.2	62.3	68.5	71.3	72.3	70.4

Source: Convergence Programme of Hungary 2005-2009, September 2006,
[http://www1.pm.gov.hu/web/home.nsf/\(PortalArticles\)/E6387420D8E63A0CC12571E6004DCC5B/\\$File/CP+o%20Hungary_September%202006_consolidated_en.pdf?OpenElement](http://www1.pm.gov.hu/web/home.nsf/(PortalArticles)/E6387420D8E63A0CC12571E6004DCC5B/$File/CP+o%20Hungary_September%202006_consolidated_en.pdf?OpenElement)

Source: Richter, Sándor: The new austerity programme in Hungary: farewell to falsehood, Background information, The Vienna Institute for International Economic Studies (wiiw), Wien, 21 September 2006, p.3

The goal of the new programme is to reduce the general government deficit to 3.2%, to remain below a 3% consumer price inflation figure by 2009 and to maximise the gross public debt at 72.3% of the GDP in 2008. Assuming a successful implementation of the convergence programme, public debt should begin to decline from 2009. The consolidation package with its cuts and savings affects four groups: government institutions, business sector, wealthier sector of the population, and the broader public. Table 6.9 summarises the most important steps of the consolidation package. The restrictions of the convergence policy will also impact on the nation's economic growth. The government expects a drop in GDP growth from 4.1% in 2006 to 2.2% in 2008. GDP growth should return to the 4.1% level by 2009.²⁵ Concerning the introduction of the euro in Hungary, this revised convergence programme does not mention any target date. The earlier officially announced target of 2010 was unmanageable and has thus been officially abandoned, and the current earliest possible introduction years are estimated to be around 2012-2013.

Neither the Hungarian public, nor the international diplomatic and business world were happy about the real economic situation of the country. However, when the question of resignation of the government or of Prime Minister Gyurcsány arose, there was consensus amongst both the national and international experts and diplomats, who claimed that there was no better alternative amongst the political parties or leaders to return Hungary back on track.

In case Prime Minister Gyurcsány should go because of his acknowledged lies, any new government could not afford to pursue a policy different from what has been promised before the elections (*in order to avoid acknowledging their own lies, too*). In that case the implementation of a radical tax reduction and the continuation of irresponsible government spending are likely to create a deep financial crisis. (Richter, 2006, p.6)

²⁵ See convergence programmemes of 2006 and 2007 at http://ec.europa.eu/economy_finance/thematic_articles/article10982_en.htm

Consequently, the pre-election programme of the FIDESZ and other parties failed to address the real economic problems of the country and their cautious programmes excluded any radical adjustments to the economic reality.

Table 6.9: Target Groups and Main Means of the “Gyurcsány” Consolidation Package (2006)

Target Group	Main Means of Budget Consolidation
Government institutions	<ul style="list-style-type: none"> - Staff of ministries reduced by one quarter - Cut of operational costs - Froze of budget reserves - 7 regional administrative units instead of the current 19 counties - Local governments with less tasks/duties/staff
Business sector	<ul style="list-style-type: none"> - 4% solidarity tax on pre-tax profit additional to the existing 16% corporate income tax - 25% entrepreneurial tax for SMEs instead of the old 15% - Rise of social security contributions for employers
Wealthier group of population	<ul style="list-style-type: none"> - 20% interest income and stock exchange tax (except for long-term government securities) - 4% solidarity tax for employees with more than EUR 2000 monthly gross earnings on the part of their earnings above EUR 2000 (additional to the 36% personal income tax) - Tax on real estates of “extra values” (under construction) - Special package for undeclared income (under construction)
Broader public	<ul style="list-style-type: none"> - Raise of VAT key from 15% to 20% (effects food, public transport, utilities and energy) - Radical cut of gas and electricity price subsidies (partial exemptions for low income households) - Radical cut of pharmaceutical product subsidies - Raise of social security contribution for employees - Raise of tax on alcoholic beverages (except for wine)

Table based on: Richter, Sándor: The new austerity programme in Hungary: farewell to falsehood, Background information, The Vienna Institute for International Economic Studies (wiiw), Wien, 21 September 2006, p.2

None of the 2006 election manifestos demonstrated how the irresponsible promises would be funded. On the other hand, the result of the most recent “Hungarian Fees Abolishment Referendum” (initiated by the opposition party FIDESZ in 2008) clearly demonstrates that the population perceives the social restrictions implied to meet international expectations as too high.

...it is easier to introduce some sort of social welfare system in societies that did not have one previously (Latin America and South-East Asia) than to ‘streamline’ one in those societies which not only have been accustomed to a social welfare system (a special form of ‘social subsidy mentality’) but desperately need one as part of indirect (non-cash) income. The difficulty of the situation is aggravated if the reforming of the social welfare umbrella has to be brought about during a meaningful fall in real wages. (Inotai, 2003, p.83)

With the turnout of over 50%, more than 80% of voters were in favour of abolishing the fees for doctor visits, medical fees paid per number of days spent in hospital as well as tuition fees in higher education. (National Election Office, 2008, <http://www.valasztas.hu/en...>) Currently there seems no other means available to replace the planned income, which was lost in the referendum and it has become virtually impossible to implement the policies demanded by Brussels. Referring back to the main characteristics of small states as defined by traditional Small State Theory, the Hungarian example demonstrates clearly how domestic interest may override foreign political requirements.

6.9 Summary

Chapter 6 has shown how Hungary has become integrated into the European Union institutionally, as well as through foreign policy and trade. It has been argued that it is possible even for a small country to gain global attention and achieve results in important political areas. Hungary’s integration into the EU is still not complete and the country has a long way to go to fully catch up with the most developed EU members, but with the help of foreign investments the country has proved that it is able to produce competitive

products for the European market. The next important task is to eliminate the domestic deficit in order to meet the Maastricht criteria and a successful implementation of the convergence programme may result in the introduction of the euro around 2011-2012. How the public will cope with the social strains/restrictions of the proposed next four years, should not be under-estimated.

After becoming acquainted with the developments in the relationship between New Zealand and Hungary, and their individual relations with the EU, it can be said that in general, both countries show the typical attributes of small countries. On the other hand, there are areas where both countries have achieved international appreciation similar to that of much larger countries. The following chapters seek to investigate whether there is a further connection between New Zealand and Hungary besides these similarities and whether a stronger relationship between the two could enhance New Zealand's diplomatic and economic interests in the EU.

Chapter 7

MILESTONES IN THE DEVELOPMENT OF RELATIONS BETWEEN NEW ZEALAND AND HUNGARY (1850 – 1st May 2004)

7.1 Introduction

Chapters 5 and 6 examined the development of connections between New Zealand, Hungary and Europe in general, and the EU in particular. It was shown that the EU plays a major role in the foreign policy of both Hungary and New Zealand, primarily because of its high economic relevance for both countries. This chapter now addresses the fourth research question of the thesis by exploring the development of relations prior to 1st May 2004 between New Zealand as a “small, high income country” (Thornton, 2006, p.165) and Hungary, as a “small country with limited resources”(Hungarian Ministry of Foreign Affairs, 2006).

The research discussed in previous chapters revealed that in relation to the EU, both Hungary and New Zealand are perceived as small countries, although New Zealand has also emerged as a significant partner for the EU in certain areas, particularly in Pacific policy. Before examining in greater detail the development of relations between New Zealand and Hungary, it is worth investigating how these countries are perceived in their own immediate regions.

New Zealand provides development aid for the Pacific Island states and the poorer East and South-East Asian countries. These countries perceive New Zealand as a “middle to large actor in its regional setting in terms of economic, political, military and population size.” (Thakur, 1991, p.243) New Zealand has a special interest in the economic

development and political stabilisation of the Pacific area, as the country holds not merely economic interests, but – because of the large number of Polynesian people who live in New Zealand – it also has social, cultural and family relations with the region. (Thornton, 2006, p.160)

New Zealand's well established connections to these countries, its close geographical situation to Antarctica, and the country's reputation as world leader in environmental protection and pastoral development also make New Zealand appear in the international arena as a 'large' state (by which is meant a key global player) if any of these areas are challenged. This global prominence shows that a country, which is generally recognised as being small, may profit by playing a special leading role in its own immediate region or in certain scientific areas.

Comparing New Zealand's characteristics as an internationally small but regionally large country, to Hungary, there are some apparent similarities. This is because the latter is perceived to be 'large' by its development aid beneficiaries and by the Hungarian minorities in its neighbouring countries (see Chapter 6 on Hungary's neighbourhood policy and foreign policy for developing countries). The significant difference, however, is that Hungary still perceives itself as being a developing country with economic difficulties, while New Zealand enjoys the reputation of being a small but 'healthy' OECD economy.

The following chapter describes the development of relations between New Zealand and Hungary from its early roots from 1850 until 1st May 2004. These dates were selected to emphasise the distinction between the periods before and after Hungary's EU accession. The chapter outlines how the first contacts were established between the two countries

(from 1850 until 1979), then explores New Zealand's initial ventures into Hungary in the 1980s before turning to the developments between the two countries during Hungary's transition and consolidation period until 2000. The chapter concludes with a discussion of the period from the beginning of the 21st century until Hungary's 1st May 2004 EU accession.

Due to the lack of existing academic research about the development of relations between New Zealand and Hungary, especially prior to 2000, the following analyses rely on information gained through interviews, questionnaires, and newspaper articles. Because of the limited amount of written material available, this chapter relies heavily on the comments and 'stories' of individual respondents. Although these might lend a rather narrative tone to the chapter, these 'stories' are crucial for establishing the background to connections between New Zealand and Hungary and while they are largely qualitative in nature, they also form the basis of the first academic analysis of this period in Hungarian-New Zealand relations.

7.2 The First Connections: 1850 to 1979

The first Hungarian settlers came to New Zealand after the failed war of independence against the Habsburg Empire in 1849. However, these migrants only stayed temporarily. The Gold Rush of the 1860s on the West Coast also attracted some adventurous Hungarians to New Zealand's shores. The earliest awareness in literature of Hungarians in New Zealand commented that "... about 100 Hungarian navvies came to New Zealand from Csongrád, a provincial town in southern Hungary, in the first decades of the 20th century."(Baeglehole, 2005)

The earliest available booklet about New Zealand written by a Hungarian, Artur Szirtes in 1910, might also have attracted some Hungarians to New Zealand (for further information about Szirtes' work, see Chapter 2). A small number of Jewish Hungarians arrived in New Zealand between the two World Wars, followed by approximately 200 people displaced by the communist regime after 1947. Another 1,000 or so Hungarians were granted refuge in New Zealand after the defeat of the Hungarian revolution in 1956.(Baeglehole, 2005)

No reliable data could be found about New Zealanders of non-Hungarian backgrounds 'discovering' Hungary until the first half of the 20th century. During the two World Wars some of the New Zealanders serving in the Commonwealth Army may also have fought in Hungary. In fact, six New Zealander airmen were shot down in 1944 in Hungary, and were buried in Solymár, on the outskirts of Budapest.

The year 1970 can be considered as the first real milestone in the development of connections between New Zealand and Hungary, as this was the year when the first bilateral trade contract was signed. The contract was modified in 1978 but was made redundant in 2004 with Hungary's EU accession. The first official diplomatic representation between the two countries was established in 1974. Neither country, however had – or indeed currently has – an embassy in the other's territory. Table 7.1 shows the names and residencies of the New Zealand Ambassadors who have been cross-credited to Hungary. Similarly, although not displayed in the table below, Hungarian ambassadors to Australia have been cross-credited to New Zealand. Honorary consuls were appointed in both countries in the 1990s.

Table 7.1: New Zealand Ambassadors Cross-credited to Hungary

Ambassador	Residency	Year
B F Bolt	Vienna	1974
F A Small	Vienna	1978
N H S Judd	Vienna	1982
D J Walker	Vienna	1985
B. Brooks	Vienna	1990
R. Grant	Bonn	1991
G. Thompson	Bonn	1994
Win Cochrane	Bonn	1998
Peter Hamilton	Berlin	2003
Alan Cook	Berlin	2007

Source: New Zealand Embassy Berlin, 2007

The first important common project between the two countries was launched in 1979 under the keen support of New Zealand Prime Minister Robert Muldoon, who was especially interested in developing deeper relations with Hungary. Under this project, Hungarian firm GANZ-MAVAG won the tender to supply 88 new electric multiple unit cars for the Wellington suburban rail lines in 1979 (Figure 7.1). The value of the tender was NZ\$ 33 million. HUNZ Export International Ltd. was established in 1979 to manage the technical and trade transactions of the train project between New Zealand and Hungary. The company's manager Tibor Bánfy, an expatriate Hungarian living in New Zealand, later assisted in the 1980s and 1990s with several other trade projects between the two governments.

As this was the biggest single contract for new rolling stock ever placed by the New Zealand Railways and the winner was a communist country, Prime Minister Muldoon was forced to justify the decision to the public on a number of occasions, particularly since Japan had also made a very competitive bid. The Hungarian Government had also agreed to buy reciprocal New Zealand exports to the value of the purchase. Japanese credit terms could not be accepted because of the uncertainty around the appreciation of the yen at that time, and Prime Minister Muldoon considered not just the cost advantages of a single

order, but rather hoped for further “opportunities for substantial trade” between the two countries (Wellington’s Evening Post, 1979, p.4):

This is of considerable importance to New Zealand at a time when we are confronted with severe balance of payments problems and are denied the opportunity of trading freely with our traditional trading partners because of the quantitative restrictions imposed by them on international trade in temperate-zone agricultural products, in which New Zealand enjoys such a marked comparative cost advantage. (Ibid)

Considering that New Zealand currently has a problem with its balance of payments, and the fact that with the further enlargement of the EU, the number of countries in bilateral agreements with the country has decreased, Muldoon’s statement might also be valid for New Zealand’s situation today, after more than 25 years. His hopes for further “substantial trade” were not totally in vain, as shown by the increasing number of bilateral projects between New Zealand and Hungary during the 1980s.

Figure 7.1: A Hungarian GANZ-MAVAG Train around Wellington



Source: Alan Wickens, www.r2.co.nz/~trp/photos/photo_1.html

7.3 New Zealand Projects in Hungary in the 1980s

The success of the railway project was followed by further diplomatic approaches and successful common business projects. Prime Minister Muldoon's visit to Hungary in 1983 was returned by József Marjai, Deputy to the then Hungarian Minister President János Kádár in 1986. New Zealand was the first country to grant Hungary special trade benefits under the Generalised System of Preferences (GSP) in 1985. One year later, Hungary became the only country from the former Eastern Bloc and from Europe as a whole to join the Cairns Group which included New Zealand and Australia. The goal of the Cairns Group was to remove non-tariff trade barriers in international agricultural trade, and to eliminate the EU and US farm and export subsidies that distorted the international agricultural market. The Cairns Group formed a strong coalition in the Uruguay Round, however, Hungary had to leave the Group after becoming a member of the EU in 2004.

New Zealand Livestock and Pastoral Improvement Projects in Hungary

In 1985 the Hungarian Ministry for Agriculture contacted Pyne Gould Guinness Ltd. (PGG) in Christchurch to provide a "Livestock and Pastoral Improvement Project" in Hungary on the cooperative farm in Mezőfalva and on a very large state farm in Lajta-Hanság. The goals of this project were "...to improve the quality of the livestock (mainly sheep) and also introduce the New Zealand technology whereby the animals are not housed but grazed outside for almost the whole of the year including winter." (Paterson – Wardell, 1989, p. 10)

Agricultural equipment, 1,200 breeding sheep, seeds, and animal health products were air freighted to Hungary. Five agricultural experts and their families were re-located to these

two Hungarian locations for three and a half years to manage the projects which were successfully completed in 1988 (Figure 7.2).

Figure 7.2: Hon. Mike Moore Minister of Foreign Affairs and Trade Visits the Lajta-Hanság Pastoral Project in 1986



Hon. Mike Moore, PGG directors John Paterson and Sir James Stewart with some of the New Zealand sheep farming family members

Source: Don Walker

According Don Walker, who was closely involved in the project as the New Zealand Ambassador accredited to Hungary between 1985 and 1989:

It was a very interesting cross-cultural interaction. To understand the uniqueness of the project, one must consider not only the great physical distance between NZ and Hungary especially for the transportation of livestock, but also the international political context. Doing business in agricultural technology with a country behind the Iron Curtain seemed to be for many a challenging endeavour, but the challenge was successfully met.²⁶

Despite the concerns that some in New Zealand had about dealing with a communist country like Hungary, one of the settled New Zealander agro-experts interviewed in June 2005 remembered a joke about Hungary's political situation in the 1980s that was widespread among the New Zealanders that arguably reveals some hidden truth to the realities of the Hungarian political situation at that time:

²⁶ Interview with D. Walker in Wellington, June 2005

“How does the Hungarian Minister President Kádár drive through an intersection?

- He indicates left and turns right.”

New Zealand families who were preparing to move to Hungary for several years required information about their new destination. All of these families were of the opinion that their preparation back in New Zealand was far from adequate and that the cultural shock they experienced would have been much less if they had received up-to-date information on Hungary. However, at that time, this information was simply not available in New Zealand.

Hungarian immigrants from 1956 in Christchurch pictured their home country as they had remembered before their emigration, which, rather than being helpful, in fact raised more doubts and uncertainty among the New Zealand families. Even the weather conditions turned out to be different from what was expected: they arrived without proper winter clothes during a chilling Hungarian January that was simply not comparable with New Zealand's winters. On the other hand, they had enough toothpaste, soap and other cleaning materials for an army regiment, as they had been told falsely that these articles were in short supply in Hungary!

After becoming familiar with aspects of living in Hungary (clothing, food, culture, political and legal system), doing their everyday work became easier. The New Zealanders were positively surprised by the high qualifications of the Hungarian middle management in terms of their tertiary education and language knowledge, and by the fact that despite the official political system, small private businesses flourished. Dealing with officials was not

difficult, as people in charge had been in the same positions for years and maintaining personal contacts was a guarantee of rewards.

The following extract from the interview with Peter Wardell, ex-managing director of HUNZAG Ltd., to *The New Zealand Herald* in 1990 is a good illustration of the environment and issues that New Zealanders in Hungary had to deal with:

Figure 7.3: A Tale of Two Fences on New Zealand Model Farm in Hungary

9 April 1990, *The New Zealand Herald*

This tale of two fences is at the huge Lajta Hanság State Farm in the west of Hungary on which a New Zealand company began creating a model New Zealand farm five years ago. It is hardly a farm in any sense that New Zealanders would identify with. It covers 25,000 hectares, and contains villages, factories, forests, railway stations and motorways to the Austrian border. But it is run as one company, a centrally planned farm with an annual turnover of \$US50 million to \$US60 million.... Its territory is about 1,000ha and the pasture land on which it developed Hungary's super grass and super sheep straddles the no man's land which existed between Hungary and Austria.

Mr Peter Wardell, Hunzag's managing director and a former manager of three of the overall farm's six districts, stood at the remnants of the iron curtain recalling how the three New Zealand farmers who started at Lajta Hanság regularly moved the sheep through the grim and extreme security to graze them.

"It was a pain-in-the-neck, daily routine. You had to present your pass, persuade the guard to let you through with a flock of sheep, tell them to get their giant Alsations out of the way, and go over without disturbing their carefully raked strip by the fence. The sheep would split, hit the fence and set off an alarm at the Army headquarters."

The iron curtain was 1km inside Hungary's border. It consisted of two electrified high barbed wire fences, patrolling armed guards, attack dogs, watch towers and alarms. ...

According to the interviews conducted both with New Zealand and Hungarian project participants in 2005, the biggest challenge for this project was in the different weather and soil conditions between New Zealand and Hungary. It soon emerged that a simple adaptation of the New Zealand expertise was not possible: at minus 10 degrees Celsius, winter in Hungary was too cold to leave the sheep outside, and the hot, dry summer caused the pastures to dry out. The only way to success considered to be, "[m]aking people

understand the basic principles and letting them interpret according to their local conditions.”²⁷

Between 1985 and 1989, several Hungarian agricultural delegations visited New Zealand and New Zealand agricultural company Pine Gould Guinness’ (PGG) experts regularly visited the Hungarian pastures. Based on the success of the farm projects, participants decided to establish a joint venture between PGG and Hungarian partners, HUNZAG Ltd. The goal of the company was twofold: Firstly, it intended to further promote the Livestock and Pastoral Improvement Projects (including sheep, dairy and beef cattle and deer farming) in Eastern Europe; and secondly, it aimed to represent a large number of New Zealand manufacturers and suppliers of advanced agricultural products and equipments. (Paterson – Wardell, 1989, p.10) HUNZAG Ltd. was also the representative of the New Zealand Trade Development Board in Hungary. The company is still active in the Hungarian market as well in neighbouring Eastern European countries. The company’s present situation is examined in Chapter 11 as a case study.

Another New Zealand company, Tru-Test Ltd. from Auckland opened its first office in Central and Eastern Europe in Budapest in 1988. The company specialised in the supply of milk meters and electronic weighing scales for livestock, and opened two other offices in the Czech Republic and Poland in the 1990s. (Further details about the company’s development and present situation are also discussed in Chapter 11 as a case study).

As well as being a year of fundamental change in Central and Eastern Europe, 1989 was also a remarkable one for the New Zealand heavy machinery manufacturer Tidco International Ltd. By establishing a joint venture company called Tidco Anix with the

²⁷ Interview with B. Simpson, New Zealand farm expert, participant in the New Zealand pastoral project in Hungary, Christchurch, May 2005

Hungarian engineering company Apritógépgyár and trading company Nikex, Tidco secured "... an entry into the large market made up by Eastern Europe's communist bloc countries...."²⁸

New Zealand Agricultural Field Days

To promote the success of the farm projects, New Zealand Agricultural Field Days were organised between 22 and 26 May 1989. The venues for the Field Days were the two Hungarian State Farms, Lajta-Hanság and Mezőfalva. While the events were held in Hungary, in preparing for them a large number of organisations in other Eastern European countries were consulted to identify and accommodate the special interests of international visitors. (Shirtcliffe, 1989, p.4) The outcome of the New Zealand Agricultural Field Days was a 40-page brochure which was an excellent source of information not just about the show's programme, but also about New Zealand, and the joint New Zealand–Hungarian projects. The brochure was published in Hungarian, German, and English.

Around 1,000 guests from the agricultural sector in Hungary, Austria, Poland, the German Democratic Republic, Czechoslovakia, the USSR, and Bulgaria visited the Field Days. This was a great achievement for the Field Days organisers, as with the exception of the Austrian guests all other foreign agricultural experts needed special permission and arrangements from their governments to be allowed to attend the exhibition (Figure 7.4).

A wide range of agricultural technology, supplies, management systems, livestock and equipment were presented, especially selected to meet the requirements of Eastern European farms. The number of participating New Zealand agricultural exporting

²⁸ "Communists Crack Up Over Kiwi Crusher", article published in New Zealand Herald, 3 March 1989
The New Zealand mother company Tidco was bought by Allis Mineral Systems, a subsidiary of Svedala Industri AB in 1990, so the company in Hungary changed its name first to Svedala Ltd, then to Metso Minerals Hungary Ltd.

companies was over 30. There were both small and medium sized as well as large firms among the participants. The idea of common representation also enabled small companies to present themselves on the market in a cost effective way.

Figure 7.4: New Zealand Agricultural Field Days in Hungary 22-26 May 1989



J. Paterson, Director of PGG Ltd, Polish Deputy Minister of Agriculture Antosiak and D. Walker New Zealand Ambassador to Hungary

Source: D. Walker

It is worth examining the list of participants to gain an impression of the sheer variety of agricultural products and services that were displayed (Table 7.2). According to the case studies discussed in Chapter 11, many of these companies are still represented either by HUNZAG Ltd. or by Bentley Instruments Ltd. in Hungary and in other Central and Eastern European countries. “This was at the time, and probably remains the largest, and most ambitious such event ever organised offshore by New Zealand and adjudged successful by the wide range of commercial participants.”²⁹

²⁹ D. Walker, Ex-Ambassador to Hungary: personal notes to the topic, 2005

Table 7.2: New Zealand Companies Represented at Agricultural Field Days in Hungary 1989

Company	Product
PGG International Ltd	finance, wool and livestock trading, grain and seed processing and export, merchandise trading and export
Agtruck Industries Ltd	fertilizer spreader vehicle
Allflex New Zealand Ltd	animal identification, ear-tags, livestock weighing equipment, wool presses
Annett & Darling Ltd	manufacture and installation of wool scours
AWA Milmech	manufacture and installation of abattoirs
Brenco Livestock Ltd	frozen semen, embryos
Charmont Holdings Ltd	animal health products and ram harnesses
Clough Holding Group	direct drills, hay equipment
Coopers Animal Health Ltd	animal health product
Ernest Hayes N.Z. Ltd	farm equipment
Gallagher Group of Coys	electric fencing equipment, livestock handling, farm equipment
Gracol Enterprises Ltd	fibreglass fencing equipment
Hennessy Grading System Ltd	meat grading equipment
Hurricane Wire Products	fencing equipment
Kyesburn Contracting Co. Ltd	round bale hay feeders
Land Corporation Farming Ltd	computer farm management and information systems
Lister-Petter N.Z. Ltd	lister shearing equipment
New Zealand Semen Exports Ltd	frozen semen, embryos
Nu Pulse N.Z. Ltd	diary equipment and dairy plants
Pacific Aerospace Corporation Ltd	agricultural aircraft
Peco Ltd	horticultural harvesting equipment
Peter Stevens Ltd	prefabricated building equipment
Prattley Engineering Ltd	portable sheep yards
Reese Group ltd	agricultural hay mowers
Southbridge Engineering Ltd	post-hole driver
Southwire Corporation Ltd	wire-netting manufacturing machines
Steel Bros. NZ Ltd	container handling equipment
Stock treatment services NZ Ltd	spray dip equipment
Sutton Workshops Ltd	livestock transport crates

Source: Brochure to "New Zealand Agricultural Technology Field Days" in Hungary, 1989, p.25-26

7.4 Development of Bilateral Relations in the 1990s

7.4.1 Diplomacy

Bilateral meetings were frequently arranged between New Zealand and Hungary in the 1990s: New Zealand and Hungarian diplomats, politicians and delegates from the different ministries met several times during this decade (Table 7.3):

Table 7.3: Bilateral Visits between New Zealand and Hungary in the 1990s

Year	New Zealand Delegations	Year	Hungarian Delegations
1990	Mike Moore – Minister of Overseas Trade	1990	Géza Jeszenszky – Foreign Minister
1992	Don McKinnon – Minister of Foreign Affairs and Trade	1992	Dr. Elemér Gergács – Minister of Agriculture
1995	John Falloon – Minister of Agriculture	1999	Károly Konrád, Associate Minister (Home Affairs)
1998	Doug Kidd – Speaker of the House	1999	János Fónagy, Economic Affairs
1999	Dr Lockwood Smith, Minister for International Trade	1999	József Torgyán – Minister of Agriculture
		1999	Árpád Göncz – President of the Republic Hungary

Source: Hungarian Ministry of Foreign Affairs, New Zealand Ministry of Foreign Affairs and Trade, 2005

Although an analysis of the effectiveness of these visits might be interesting, it could not be undertaken in this thesis because of the limited public information available. The frequency of the visits in each direction and the profiles of the visitors, however, indicate that agricultural export-import questions formed the key focus of these meetings. Comparing the number of diplomatic visits between New Zealand and Hungary with those between New Zealand and the other Central and Eastern European countries we can say that foreign political relationships between New Zealand and Hungary have been by far the most intense.³⁰

³⁰ Number of bilateral visits between 1990-1999: NZ-Czech Republic: 6; NZ-Romania: 3; NZ-Poland: 2; NZ-Slovakia: 2. (NZ Ministry for Foreign Affairs and Trade, 2008)

7.4.2 Trade

The first such event that merits a closer examination is the visit of Mike Moore, then Minister for Foreign Affairs and Trade in 1990, one year after the successful New Zealand Agricultural Field Days in 1989. The uniqueness of this visit was that it was undertaken not only by the Minister and his close diplomatic colleagues as is usually the case in such visits, but more significantly, that he was also escorted by a delegation of nearly 80 other individuals under the title “New Zealand Diplomatic and Economic Mission to Poland, Germany, Czechoslovakia and Hungary”:

Close to 80 New Zealand representatives from various political, business, social and cultural sectors, including the news media, travelled – at times unsteadily - on an unreliable RNZAF 727. Not all the delegation members contributed equal value to the mission’s objectives... It was then, and probably remains, the most oddly assorted collection of people ever to travel abroad at public expense on an official mission.³¹

The successful bilateral trade relations of the 1980s with Hungary, as well as the positive developments of the political and economic transition of the Central and East European region were the precipitating factors for this mission and its goal was to develop relationships in a wide range of areas with the visited countries. Although several other countries were toured by the delegation, the main focus of the mission remained on Hungary, primarily because of its favoured geo-political situation between East and West and the country’s experiences of both westernised and Eastern European commercial systems. The article shown in Figure 7.5, published at the time of the mission, clearly illustrates the visit’s popularity, as well as Mr. Moore’s concerns.³²

³¹ D. Walker, at that time Mission participant as Senior Trade Commissioner, NZTD: personal notes to the topic, 2005

³² Factiva identified 7 articles written about the Mission between February and March 1990

Figure 7.5: Eastern Europe Mission Popular 14 February 1990, *The New Zealand Herald*

About 80 people are now expected to join the Minister of Foreign Affairs and Trade, Mr Moore, on his trip to Eastern Europe next month.

Mr Moore said yesterday that he had been "almost embarrassed" by the number of business executives wanting to join the mission to Poland, East Germany, Czechoslovakia and Hungary. The trip would have a major foreign policy function to fulfil, Mr Moore said.

"We must build contact with the emerging leaders of sector groups in Eastern Europe, to enjoy the kind of influence we have had in Western Europe for generations."

"New Zealand cannot be the only member of the OECD not to take a foreign policy position," he said.

"Equally dangerous is that we lose any marginal influence we have to ensure Eastern Europe does not follow Western Europe's agricultural policies of subsidies and protection."

He warned business people there would be few "quick fixes" in Eastern Europe, despite the billions of dollars in aid pouring into the region from the United States, Western Germany and other countries. "One Christchurch company, now doing good business in Hungary, endured 130 meetings over three months as a preferred joint-venture partner," he said. "The progress is wonderful, it's an epic age but it's still fragile."

According to later evaluations, only a few companies took heed of Moore's warnings: it was mostly those companies with existing relationships or personal contacts in Central and Eastern Europe that utilised this unique opportunity, while for others the mission remained an exotic tour to the "Wild East" (Table 7.4).

One of the most engaged companies was HUNZ Export International Ltd. that was established in 1979 to manage the New Zealand-Hungarian train project. Tibor Bánfy, manager of the company, assisted further business between the two governments in the 1980s and 1990s. He exported a number of the famous New Zealand-made 'Hamilton Jet' rescue crafts and fast tourist boats to the Hungarian Government and initiated a joint venture manufacturing plant in Hungary for these boats, fisheries and rescue work. The company claimed at that time that, "[w]e are also specialising in pollution free propulsion systems, environment control and international sport-cultural relations".

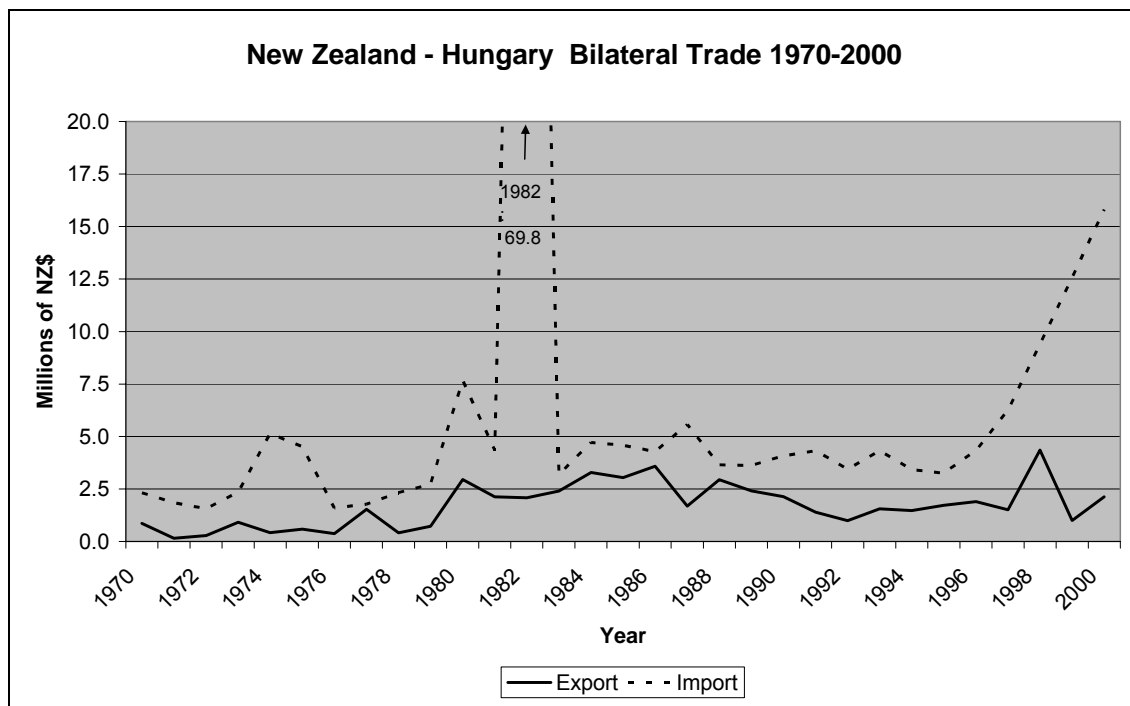
Table 7.4: Participants of the New Zealand Diplomatic and Economic Mission to Poland, Germany, Czechoslovakia and Hungary, 1990

<p>Leader: Mike Moore Minister of Foreign Affairs and Trade</p> <p>Deputy Leader: John Paterson, PGG International Ltd</p> <p>Business Representatives:</p> <p>AEL Corporation</p> <p>Allflex New Zealand Ltd</p> <p>Allied Fright Services</p> <p>Aloe Vera New Zealand Ltd</p> <p>ANZ Banking Group</p> <p>Baldwin Son & Carey</p> <p>Beca Worley International</p> <p>Contra-Shear Holdings Ltd</p> <p>De-Bug Manufacturig Ltd</p> <p>Department of Scientific and Industrial Research</p> <p>Euro Tafts</p> <p>Gallagher Group fo Companies</p> <p>Genovation Consortium Ltd</p> <p>HUNZ Export International Ltd</p> <p>Ika-Roa International ltd</p> <p>Landcorp Farming and Landcorp Management Ltd</p> <p>Lapco Enterpirses Ltd</p> <p>Lincoln International Ltd (Lincoln University)</p> <p>Ministry of Agriculture and Fisheries</p> <p>NZ Apple and Pear Marketing Board</p> <p>New Zealand Holdings (UK) Ltd</p> <p>NZ Export Import Corporation Ltd</p> <p>New Zealand Semen Export ltd</p> <p>New Zealand Wool Boars</p> <p>OTENZ Group Ltd</p>	<p>PGG International</p> <p>Radio New Zealand Ltd</p> <p>Shipping Corporation of NZ Ltd</p> <p>Telecoms Network and International Ltd</p> <p>Trigon Packaging Systems NZ Ltd</p> <p>Universal Shipping Agencies Ltd</p> <p><u>Invited Guests:</u></p> <p>NZ Council of Trade Union</p> <p>Returned Services Association</p> <p>Federal Farmers of New Zealand Inc.</p> <p>New Zealand Chamber of Commerce</p> <p>The Czechoslovak Club Inc. in New Zealand</p> <p>The German Club Inc. in New Zealand</p> <p>The Hungarian Club Inc. in New Zealand</p> <p>The Polish Association Inc. in New Zealand</p> <p><u>Officials:</u></p> <p>Executive Assistant to the Minister</p> <p>Private Secretary to the Minister</p> <p>Assistant Secretary, Ministry of External Relations and Trade</p> <p>Charge, New Zealand Embassy Vienna</p> <p>New Zealand Ambassador designated to Austria, Poland, GDR, Czechoslovakia and Hungary</p> <p>Stenographer, NZ Embassy, Geneva</p> <p>Senior Trade Commissioner – New Zealand Trade Development Board (NZTD)</p> <p>Agritech Development Manager, NZTD</p> <p>Ministerial Mission Manager, NZTD</p> <p>Development Executive, NZTD</p> <p>Marketing Officer, NZTD</p> <p>Budapest Representative, NZTD</p>
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Source: New Zealand Economic and Trade Mission 1990 Brochure

The contribution of these earlier projects to the development of more intensive trade relations between New Zealand and Hungary can be traced in Figure 7.6, which displays the export and import figures for the period 1970 – 2000.

Figure 7.6: New Zealand – Hungary Bilateral Trade 1970-2000



Source of data: Statistics New Zealand 2005

As the data above shows, the value of imports from Hungary to New Zealand has always outweighed the country's exports to Hungary. Although there has been some variation in certain years, in general, the export-import ratio has been between 1:2 and 1:3. Import figures, though, show a clear spike in 1982 (import of 44 Hungarian rail units for Wellington, as discussed earlier), and indicate a sharp increasing tendency from 1997. From 1997 onwards, New Zealand began importing computers, data processing machinery, vacuum cleaners, and other electrical equipments in ever-larger quantities. The New Zealand export volume peaked in 1998 with a large order of beef meat, butter and milk fat. On the other hand, the very next year saw the lowest export figures since 1992, while from

the year 2000 onwards, export volumes once again started to rise. As is discussed in the following section, much of these export volumes in the new millennium were influenced by Hungary's move towards EU accession.

7.4.3 Research and Educational Projects

At the meeting of the Group of 24³³ in Brussels in 1989, New Zealand was one of the first countries to submit a financial aid-package plan of NZ\$ 1 million to support development in Central and Eastern Europe. Hungary received half of this amount: NZ\$ 250,000 was devoted to the development of pastoral and farm management, sheep farming technology, milk production and milk processing technology. The remaining NZ\$ 250,000 was divided between agricultural educational institutes and training in environment protection.

Within the frame of this financial aid, the Agricultural University in Hódmezővásárhely and the New Zealand EURO Tafts International Ltd. established a pastoral and sheep breeding farm where students received practical information about New Zealand farm management technology. A similar training farm was established for the Pannon Agricultural University in Kaposvár, which focused on sheep, and a dairy school farm in Mosonmagyaróvár. In conjunction with EURO Tafts International Ltd., New Zealand joint ventures operating in Hungary like HUNZAG Ltd. and Genovation Ltd. facilitated the implementation of these projects. (Hungarian Ministry of Agriculture, 2004) Further scientific and research connections were established with Lincoln University near Christchurch in New Zealand. The Hungarian Dairy Research Institute (Magyar Tejgazdaság Kutató Intézet – MTKI) exported diverse milk products to Fonterra, and they

³³ “The Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24) was established in 1971. Its main objective is to concert the position of developing countries on monetary and development finance issues.” <http://www.g24.org/aboutg24.htm>

also collaborated to the economic advantage of both, in the European market. The MTKI also has long-term connections with the New Zealand Dairy Research Institute, and the two have worked together in the exchange of technological and scientific information, joint research projects and collaboration on law developments (for example membrane scan, ultra scan, etc).

Conductive Education

Another important and successful joint project between New Zealand and Hungary was in the reverse direction: with the assistance of New Zealand Minister of Foreign Affairs and Trade, Mike Moore and PGG director John Paterson, Hungarian expertise was exported to Christchurch in the form of Conductive Education in 1991. This case is an excellent example of how established diplomatic and business contacts can have a positive influence on other areas in the home country. Conductive Education (Figure 7.7) was developed by Professor András Pető in Hungary between 1930 and 1945:

(It is) an intensive, comprehensive and structured learning programme for the rehabilitation of people with motor disorders. The aim of the Conductive Education is for an individual to gain maximum independence through the improvement of all areas of development: fine motor, gross motor, communication and social skills, cognitive skills, self help and life skills. (New Zealand Foundation for Conductive Education, 2005, p.2)

Sally Thomas, manager of Conductive Education Canterbury, explained that many families saw a British documentary “Standing up for Joe” (BBC 1986) about a disabled child who was brought to the Pető Institute in Hungary and who made very good developmental progress. A group was set up with the intent of bringing Conductive Education to Christchurch. Contact was made with PGG director John Paterson who used his contacts in Hungary to assist with the employment of a conductor who was specialist trained in Conductive Education practices, and he helped with fundraising efforts to help bring this Hungarian conductor to Christchurch.

Figure 7.7: Conductive Education - Children Preparing for an Independent Life



Source: www.conductive-education.org.nz

According to interviews with John Paterson and Sally Thomas in 2005, in establishing Conductive Education in New Zealand, challenges were encountered in gaining recognition for the organisation and getting New Zealand government funding. The concept was not well known or understood and was originally seen as being a rather negatively perceived “alternative” type of therapy, both by professionals and non-professionals alike. All Conductors were brought over to New Zealand from Hungary, where Conductive Education is taught over four years as a tertiary degree. The Pető philosophy was adapted to be compatible with New Zealand customs and education system. Today, ten Conductive Education centres operate throughout New Zealand, offering nationwide rehabilitation from pre-school age children through to adults.

Music

During the 1990s, through the New Zealand branch of the International Society for Music Education, a number of New Zealand musicians travelled to Hungary to study at the Music Academy in Budapest, the Kodály Institute in Kecskemét or the Bartók Seminarium in Szombathely. According to interviews conducted with New Zealand classical music

teachers and composers from Massey University, Wellington, classical music in New Zealand is considered to be a more peripheral subject area, while in Hungary it forms one of the central points of culture and education and as a result there is greater governmental and public support available than in New Zealand. According to interviewees, New Zealand musicians would welcome the opportunity for a wider range of music students from New Zealand to learn and perform in Hungary, but it is very difficult to receive scholarships for musical studies. Bilateral exchanges in this field might offer a cost effective way within the framework of Hungarian–New Zealand academic collaboration and joint music research projects.

7.4.4 Bilateral Publicity in the 1990s

New Zealand was monitored regularly by Hungarian journalists and researchers of different areas during the 1990s. Table 7.5 presents a selection of articles from different areas of this research. The 1990s were a period during which Hungary realised that its status quo could not be maintained, and both scientists and journalists began to look at other countries, keen to identify whatever trends seemed useful when redesigning their own country:

The knowledge of systems in other countries and of attempts at their reorganisation may offer a great many lessons...A comparison of (...) institutions of the two countries also shows that significantly differing attempts at fighting mostly identical problems may be born. (Pete, 1994, p. 454)

New Zealand's high reputation as a prospective model for Hungary is indicated by the range of topics and sheer number of articles published about it throughout these years. (Bibliographia Hungarica, 1/2004) As the titles of the articles show, various topics - including education, agriculture, health and social security systems, finance policy, environment protection, and politics - were investigated and analysed for their viability and applicability in Hungary. The fact that such research was devoted to obtaining information

on “the New Zealand way of doing things” is also interesting because of the geographical distance and significant historical and cultural differences between New Zealand and Hungary.

Table 7.5: Articles about New Zealand in Hungary between 1990 and 1999 (Selection based on Bibliographia Hungarica 1/2004)

Title of Article (translated)*	Published by
New Zealand's Agriculture	<i>Heti Kis Újság (Weekly Little Newspaper)</i> , 22/03/1991
New Zealand on Hungarian acre (joint pastoral project in Hungary)	<i>Reggeli Kurir (Morning Courier)</i> , 19/07/1993
Foreign Curriculum Frameworks: Fragments from England's, Denmark's, Germany's, Norway's and New Zealand's national curriculum	<i>OKI</i> , 1993
Budapest-Wellington: Collaboration of chambers	<i>Világgazdaság (World Economy)</i> , 02/04/1994
Pete, P.: The finances of the state sector in New Zealand	<i>MTA (Hungarian Academy for Science)</i> , 1995
Pete, P.: The minister as costumer: Lessons from New Zealand's states household reform for Hungary	<i>Figyelő (Observer)</i> , No. 39/1995
New Zealand: a good example for the Hungarian agro sector	<i>Napi Gazdaság (Daily Economy)</i> , 24/03/1995
Pete, P: Features and reforms of the social and superannuation systems in Australia and New Zealand	<i>Külgazdaság (Foreign Economy)</i> , 1997
New Zealand offers a model to follow	<i>Magyar Hírlap (Hungarian Newspaper)</i> , 29/08/1997
New Zealand without atom weapons	<i>Magyar Hírlap (Hungarian Newspaper)</i> , 03/08/1998
New Zealand in a woman's hands	<i>HVG (Weekly World Economy)</i> , 18/12/1999

*Titles translated by thesis author.

The coverage of Hungary in the New Zealand print media was collated using the search engine Factiva³⁴, which provides articles from the majority of the nation's most important newspapers. Table 7.6 shows a selection of the relevant articles. Unlike the Hungarian case, in New Zealand the coverage was not as varied and concentrated less on Hungary as

³⁴ Please note, Factiva does not contain all newspapers, and articles, thus its collection is not comprehensive. Factiva was, however, evaluated as most suitable search engine for the purpose of this research, considering also the academic time-frame available for the research process.

a country itself and more on reporting special occasions in which New Zealand was involved with Hungary. For example, four articles appeared about the New Zealand Trade Mission to Eastern Europe between January and March 1990 in *The New Zealand Herald* and two in *Reuters News*.

Table 7.6: Articles about Hungary in New Zealand between 1990 and 1999 (Selection based on the search on the Internet with search engine Factiva)

Title of Article	Published by
Eastern Europe Mission popular	<i>The New Zealand Herald</i> 14/02/1990
A tale of two fences on New Zealand model farm in Hungary	<i>The New Zealand Herald</i> 09/04/1990
Hungary keen to boost ties	<i>The New Zealand Herald</i> 10/05/1990
New Zealand seeks support of Poland and Hungary	<i>National Business Review</i> 28/11/1990
Hungary seeks New Zealand investment	<i>The New Zealand Herald</i> 28/11/1990
Mindszenty's Reburial to end his exile from Hungary	<i>Reuters News</i> , 30/01/1991
Trade position with Hungary set to strengthen	<i>National Business Review</i> , 22/05/1992
Hungary opens door to boom in Kiwi agricultural services	<i>National Business Review</i> , 22/05/1992
Hungary block WTO panel on export subsidy row	<i>Reuters News</i> , 23/01/1997
Hungary settles farm subsidy dispute at WTO	<i>Reuters News</i> , 30/07/1997
Minister president returns with warning on tariffs	<i>New Zealand Press Association</i> , 05/05/1998
Hungary Customers Call	<i>The Christchurch Press</i> , 17/09/1998
Hungarian presidential visit may aid farm trade-exporter	<i>New Zealand Press Association</i> , 18/02/1999
Hungary's "Uncle Árpí" visits	<i>The New Zealand Herald</i> , 23/02/1999

Other newspapers highlighted trade links between New Zealand and Hungary (seven articles between 1990 and 1992), Hungary's farm subsidy dispute at the WTO (three articles in 1997), Hungarian President Árpád Göncz's visit to New Zealand (seven articles in 1999). The tour of the Hungarian music ensemble "Takács Quartet" around New Zealand in 1999 was mentioned in three articles and some other stories appeared regarding expatriate Hungarians living in New Zealand, however these cannot be considered as

articles written about Hungary as country in general, but rather were specific case studies about immigrants' experiences living in New Zealand.

The visit of Hungary's president Árpád Göncz to New Zealand was considered especially important to both countries. The biggest achievement of this visit was the establishment of a reciprocal visitor visa waiver arrangement, effective as at March 2000.

7.5 Development of Bilateral Relations 2000-2003

7.5.1 Diplomacy

The 21st century started with a visit from the Hungarian Deputy State Secretary, Dr. Mucsi who met with New Zealand representatives from the Ministry of Agriculture and Forestry and the Ministry of Foreign Affairs and Trade. As a result of these meetings the Hungarian Ministry of Agriculture created a list of possible bilateral collaborations that were forwarded to its New Zealand counterparts. New Zealand representatives expressed special interest in pastoral project investments and bilateral student exchanges. Table 7.7 denotes the further bilateral visits between 2000 and 2003.

Table 7.7: Bilateral Visits between New Zealand and Hungary from 2000 to 2003

Year	New Zealand Delegations	Year	Hungarian Delegations
2003	Trevor Mallard – Minister of Education	2000	Dr. Imre Mucsi – Deputy State Secretary
2003	Jim Sutton – Minister for Agriculture and Trade Negotiations	2000	Dr. István Stumpf – Chief of the Prime Minister’s Office
		2002	Dr. Katalin Szili – Speaker of the National Assembly
		2003	Dr. András Bárony – Secretary of State for Foreign Affairs

Source: New Zealand Embassy, Bonn 2005 and Hungarian Ministry of Foreign Affairs, 2005

Over the next four years, more Hungarian delegates visited New Zealand than vice versa. This, however, does not necessarily mean that New Zealand paid less attention to the developments in Hungary and Central and Eastern Europe. Compared with previous decades though, the focus of New Zealand’s attention shifted from viewing Hungary solely as potential market for New Zealand products, to an interest in the political and economic impacts of Hungary’s (and Poland’s) EU accession on New Zealand. To determine New Zealand’s future diplomatic position towards Hungary (and Poland), assessments were conducted with a special focus on the sensitive agricultural policy and they were compared with the results of foreign studies (eg. EU Commission 1998, Halmai-Elekes 2000, Saunders 2000, Weber 2000, Petrovic-Barrel 2003). The goal of these assessments was to identify to what extent Poland and Hungary might be a “danger” for New Zealand’s agricultural exports to the EU after accession, and their results were controversial, ranging from “severe danger to New Zealand’s economy” to “new opportunities for New Zealand”.³⁵

As a next step to assess opportunities in the potential new EU Member States, New Zealand Minister for Agriculture and Trade Negotiations Jim Sutton led a second trade mission to Hungary, the Czech Republic, Germany, and Poland in April 2003. The

³⁵ See more details on these studies under Review of Empirical Literature in Chapter 2.

following extract clearly illustrates the shift in the perception of these countries as merely business opportunities to potential new diplomatic alliances within the EU:

With their imminent entry into the European Union, Central and Eastern European countries are increasing in political, economic and strategic importance to New Zealand. Poland, Hungary and the Czech Republic are the most populous and influential central European countries. ... they are set to become influential voices within the EU on policy matters which will have a direct bearing on our trade and economic interests. It is important that they understand the New Zealand perspective on key issues such as CAP reform, subsidies to agriculture and the importance of securing an ambitious outcome to the Doha Round. (<http://www.beehive.govt.nz>: Jim Sutton to visit Europe 23/04/2003)

Public opinion on the necessity and usefulness of the visits by the Hungarian political elite to New Zealand from 1999 was rather negative, with the exception of the visit President Göncz. This is partly because the justification for these visits and their results were not widely publicised, but it is also because of the more critical attitude of the print news media since the ‘globe trotting journeys’ of ex-Hungarian Minister for Agriculture József Torgyán with his close friends and relatives, which were to a large extent unjustified. Visits by politicians who resigned or were promoted to a new position straight after their visits to New Zealand had also been criticised as being ‘final reward trips’ at the public’s expense.

7.5.2 Trade

Bilateral trade between New Zealand and Hungary can be evaluated as modest compared with the contribution to the total international trade volume in both countries. According to the figures of the Hungarian Central Statistical Office (KSH), New Zealand was Hungary’s 62nd most important trading partner in 2003 (Hungarian Central Statistical Office, 2004), while Hungary was ranked as only 113th for New Zealand in the same year. (Statistics New Zealand, 2004) The macroeconomic arguments by governmental bodies in both countries on whether the ties between New Zealand and Hungary should be broadened or not were based to a large extent on these rankings. Despite the low economic rankings, however,

figures show a steady increase in bilateral trade that could arguably accelerate with greater diplomatic involvement – as has been argued by private business actors in the survey conducted in 2005 (see Chapter 8 for more details).

Table 7.8 illustrates the development of bilateral trade between New Zealand and Hungary from 2000-2004. A comprehensive in-depth economic analysis will not be undertaken in this thesis as it would go beyond the academic boundaries, and time and length restrictions of the study. The introduction of the mutual visa waiver agreement in 2000, the positive economic developments in Hungary and the various EU development projects for Hungary might have all contributed to a greater demand for New Zealand exports, as the trade figures show a steady increase from 2002 onwards. The most important New Zealand export products to Hungary in the 1990s were articles of plastic, milking machines, dairy technology. From 2000 onwards, however, cheese products, wool, medical products, and sheep/goat meat were sold in growing volumes. Likewise, Hungary doubled its exports to New Zealand between 2000 and 2004. The main Hungarian export products were processing machines, domestic appliances, motor vehicles, lamps, tyres transistors, aluminium sheets, and footwear.

Table 7.8: New Zealand – Hungary Bilateral Trade between 2000 and 2004 in New Zealand Dollars

	Year				
	2000	2001	2002	2003	2004
NZ Imports	14,052,447	18,949,839	17,842,419	23,042,579	29,170,900
NZ Exports	2,123,000	2,533,000	2,145,000	4,385,327	4,387,000

Source: Statistics New Zealand 2006

As figures in the above table show, in 2003, both exports and imports grew substantially in comparison to previous years' trade and, particularly in the case of imports from Hungary which developed further in 2004. The fact that Hungary's potential EU membership seemed to be decided by 2003 might also have contributed to this positive trade development. To evaluate the effects that Hungary's EU membership may have had on the bilateral trade between New Zealand and Hungary, trade figures between 2000 and 2003 are compared with trade figures from 2004, 2005, and 2006 in Chapter 8.

7.5.3 Research and Educational Projects

Common agricultural research projects in the 1990s developed further between academic institutions involving four Hungarian tertiary institutions as partners of New Zealand's Lincoln University. Deer farming projects established in 1984 were extended to include common breeding, and as a result not only do New Zealand sheep now graze on Hungarian pastures, but Hungarian deer are seen in New Zealand paddocks.

Student exchanges and part-time PhD training evolved as new programme between Szent István University and Lincoln University in 2001. The goal was to extend the scope of educational and scientific cooperation to environment management and engineering. Unfortunately, country specific figures for the movement of students and visitors between Hungary and New Zealand during period prior to 2004 are unavailable. Upon request, both countries' statistics office stated that because of the extremely low number of visitors and students from the other country, the relevant figures have been grouped together with those of other countries with similarly low occurrence and it was not possible to separate these.

Rugby, New Zealand's national game, started to develop slowly in Hungary in the second half of the 1990s. The Hungarian Rugby Union (HRU) introduced its first New Zealander player Michael Cowan in 1999, and Cowan later became the HRU's president and Head Coach for the Hungarian national team in 2004. Although one or two Hungarian rugby players arrived in New Zealand in 2000 to play in 2nd and 3rd division rugby clubs, no official rugby exchanges existed at this time. Cowan started a 'Central-Eastern European Rugby Academy Initiative' with the objective of becoming, "a training and club host interchange between players in the academy and young local talent being sent to play in New Zealand, UK, Ireland." ³⁶

7.5.4 Bilateral Publicity 2000-2003

In the meantime, Hungary moved out of the 1990s period of seeking alternative methods of development as its path became clearly defined by the necessity of meeting the EU's Copenhagen criteria and the further conditions set for candidate countries to join the EU. While public interest in New Zealand remained during this new period of transition, this interest took on a rather different character, as can be seen in the headlines of various Hungarian newspaper articles during the period (Table 7.9).

Unlike the publications of the 1980s-1990s these articles no longer analysed New Zealand as a possible model for Hungary, but rather they informed news audiences about New Zealand's foreign political position and other interesting or unusual events. The number of photo seminar presentations about New Zealand as a tourism destination also grew during this time, primarily promoted by Hungarians who had visited the distant country.

³⁶ E-mail correspondence with Michael Cowan 22/05/2006

Table 7.9: Articles about New Zealand in Hungary between 2000 and 2003 (Selection based on Bibliographia Hungarica 1/2004)

Title of Article (translated)*	Published by
New Zealand in Erzsébet (suburb of Budapest) – a photo exhibition	<i>Népszabadság</i> , 23/04/2001
East Timor and New Zealand grants asylum	<i>Népszabadság</i> , 31/08/2001
New Zealand has chosen	<i>Népszava</i> , 29/07/2002
New Zealand: The EU is far away	<i>Magyar Hírlap</i> , 05/08/2002
New Zealand doubts America's right on war	<i>Népszabadság</i> , 18/03/2003
New Zealand protects the climate with a special tax: "wind-tax"	<i>Népszabadság</i> , 20/06/2003

*Titles translated by thesis author.

The level of Hungary's publicity in New Zealand during this period was still very limited. While there was a new interest in the political and academic arena about Hungary as an EU candidate, the local news media followed this development with little interest (Table 7.10). On the other hand, unlike previous decades these articles began to include some political and economic analysis of the country and also mentioned it in an EU context.

Table 7.10: Articles about Hungary in New Zealand between 2000 and 2003 (Selection based on the search on the Internet with search engine Factiva)

Title of Article	Published by
Hungary in transition	<i>The Christchurch Press</i> , 14/10/2000
Hungary garden gets capital nod	<i>The Evening Post</i> , 21/05/2002
Hungary's capital market	<i>Dominion Post</i> , 08/08/2002
The new EU – A super market	<i>The Independent Business Weekly</i> , 23/10/2002

7.6 Summary

The development of relations between New Zealand and Hungary from their early roots until 2003 can be evaluated as positive, despite the two countries' different historical,

socio-cultural, political and economic backgrounds, and their physical distance from each other. These differences were perceived neither by politicians nor by business actors as being irreconcilable obstacles to launching common projects. A promising start to joint projects both in diplomacy and business, as well as other areas like science, education and research were made during this earlier period. The fact that both countries are seen as small states in the international political and economic context tended to outweigh the differences mentioned above and was revealed to be a bonding factor in areas of common interest like the Cairns Group and in other international organisations like WTO, GATT.

On the other hand, the political and economic changes in Hungary (as discussed in Chapter 5) especially in the second half of the 1990s, brought greater challenges and obstacles for New Zealand enterprises and projects. The changing legal structure, especially the question of landownership, affected the former state farms as they had to be divided among the former private owners. Because of this, New Zealand and other agricultural supply companies lost a significant number of state orders. The question of landownership is still not fully resolved in Hungary. One former New Zealander pastoral project participant saw good opportunities for New Zealand in the field of resource, farm and forestry-management consultancy, and the legal structure of farm and land-ownership.

While foreign investors from Germany, Holland, Korea and Japan endeavoured to take advantage of the constantly changing legal and tax structures in Hungary and made considerable profits in the first half of the 1990s, New Zealand decided to retreat from Central and Eastern Europe. The Embassy in Vienna was closed, and Hungary along with other former communist countries was handled by the then New Zealand Embassy in Bonn. Representatives of the New Zealand Trade Development Board (now New Zealand

Trade and Enterprise) were also withdrawn from Hungary. Although the company HUNZAG Kft. with its joint capital remained, the other New Zealand agricultural supplier True-Test decided to sell its well-established companies in Central and Eastern Europe in 2000 (see Chapter 11 for further details).

New Zealand survey participants involved in diplomatic or business relationships in Hungary during the 1990s tended to evaluate New Zealand's official withdrawal from Central and Eastern European countries as "a fatal error".³⁷ Those New Zealanders who stayed in Hungary during the 1990s and who remain in Hungary today were of the opinion that establishing a new company and conducting business in Hungary is now much more difficult than it used to be because of the saturated markets and higher production costs (see perception of survey participants in Chapter 10 for further details).

In terms of foreign political interest in Hungary, from 1995 onwards there was a gradual shift in the perceptible interest. The ratification of the White Book in Cannes in 1995 was seen in Hungary as being almost a guarantee for a future EU accession as the country's "only task" – although certainly a large one – remained to meet the criteria. Hungary's prospects for EU accession made the country attractive for new, big investors that also emerged as significant competitors to New Zealand products.

The following chapter investigates how this new international political environment, especially the context of EU enlargement, influenced developments between New Zealand and Hungary from 2004 onwards and seeks to identify future opportunities in the relationship.

³⁷ See the quotations of the survey conducted in New Zealand and Hungary in 2005 under Chapter 9.

Chapter 8

RELATIONSHIPS BETWEEN NEW ZEALAND AND HUNGARY BETWEEN 2004 AND 2007 – MACRO DATA ANALYSIS

8.1 Introduction

Hungary's EU accession on the 1st May 2004 was an event which affected not only the societal, economic and juridical system of the EU and Hungary, but also their foreign political and economic relations with third countries.

The goal of this chapter is to provide a macro-level analysis about the most important recent developments between New Zealand and Hungary. The main sources of information for this analysis were statistical data and the official publications of embassies and ministries. The investigation begins with an analysis of diplomatic relations (Section 8.2), followed by trade development (Section 8.3), migration and tourism (Section 8.4) and common research and educational exchanges (Section 8.5). Similarly to Chapter 7, this chapter also considers the volume of media coverage about each country in the other (Section 8.6). The chapter ends with the conclusions (Section 8.7) derived from the macro-level analysis.

The insights gained from this analysis are also drawn on in the final conclusion to the thesis (Chapter 12), when they are compared with the results of the micro-level analysis, based on surveys conducted in 2005 and 2007 (Chapters 9 and 10) and the four case studies discussed in Chapter 11.

8.2 Diplomacy

Traditional Small State Theory states that small countries have a narrow scope of foreign policy issues which concentrate primarily on building economic relationships in their neighbouring and regional areas (see Table 2.5 in Chapter 2). Furthermore, while emphasising international law and principles, these small states aim to co-operate with one another so as to avoid conflict with militarily or economically stronger nations. In the case of the development of diplomatic relations between New Zealand and Hungary, according to the theoretical assumptions and considering the geographically distance and small levels of bilateral trade between the two countries, they might be assumed to have few points of connection in the international arena. This chapter evaluates whether diplomatic relations between Hungary and New Zealand were indeed focused only on building trade capacity, or whether despite the huge geographic distance, some common non-trade related interests could also be mutually supported.

The year of Hungary's EU accession also revitalised the diplomatic connection between New Zealand and Hungary. Dr Tibor Szanyi, State Secretary for Agriculture and Rural Development, visited New Zealand in June 2004. Four months later New Zealand Governor-General Dame Sylvia Cartwright paid an official state visit to Hungary in early October 2004 (Figure 8.1). This was followed by a bilateral visit to Hungary by New Zealand Prime Minister Helen Clark, in association with the Progressive Governance Summit in Balatonőszöd on 14-15 October 2004.

Figure 8.1: Governor-General Dame Sylvia Cartwright in Budapest with Dr. Ferenc Mádl, President of the Republik Hungary, October 2004



Source: <http://www.scoop.co.nz/stories/PO0410/S00056.htm>

New Zealand, having a strong interest in international whale protection, welcomed Hungary's decision to join the International Whaling Commission (IWC) in 2004. It is worth examining Hungary's IWC accession in greater detail, as it indicates the ability of small countries to gain importance rather unexpectedly when they join international organisations. Because Hungary had no direct involvement in the whaling industry, the decision to join the IWC seemed an easy one according to András Nagy, the official responsible for relations with Asian and Pacific countries in the Hungarian Ministry for Foreign Affairs in 2005 (interviewed by thesis author in July 2005). It was a decision primarily taken on ethical and environmental protectionist considerations in combination with Hungary's aim of becoming a small but active country in a, relatively inexpensive, multilateral organisation. It was never anticipated that Hungary's accession to the IWC might cause concerns for Hungarian diplomacy, however, shortly after Hungary publically signalled its intent to join the IWC, a diplomatic delegation from Japan met with the Hungarian Ministry of Foreign Affairs. Japan had made significant investments in Hungary

and there have been important economic ties between the two countries since the 1980s. Based on these positive relations, the Japanese delegation was eager to persuade Hungary to reconsider joining the IWC and to understand and support Japan's position in the Whaling Commission. Hungary thus found itself caught between two rather conflicting choices: to support the interests of New Zealand, a country of much limited economic importance to Hungary, or to support Japan, a country of critical economic importance. In the end, Hungary stood by its decision to accede to the IWC, and as such some skilful diplomacy was needed to preserve the otherwise excellent ties to Japan.

This incident highlights the argument that even a small country without a direct stake in an issue can support other small states against economically stronger ones, and that small states do not necessarily put their economic or trading interests at the forefront in their diplomatic decision-making. In this particular case, Hungary clearly acted against its immediate trade interests to support a rather morally-driven issue in which it has no special economic advantages.

Returning to the agendas of the New Zealand delegation visits to Hungary, several issues were discussed, but among them there were two particularly important bilateral agreements that were under negotiation: the Working Holiday Scheme and the Social Security issue regarding the transfer of pensions between the two countries. Although the Hungarian Ministry of Foreign Affairs welcomed both initiatives, it was unable to get the Hungarian Government to sign either agreement.

Working Holiday Scheme

Both Hungarian and New Zealand diplomats, businesses and young people who were potential benefactors expressed their disappointment at the failure to sign the Working Holiday agreement (as demonstrated in the survey results of the following chapters). The main obstacles to the agreement were the EU restrictions on the free movement of the labour force from the new Member States until 2011. As it was entitled to under the principle of reciprocity, Hungary imposed similar labour force restrictions against certain existing EU Member States. The *Acquis Communautaire*, however, prohibits a Member State from allowing a more preferential treatment to a third country than to an EU Member State. Thus, while Hungary applies labour market restrictions to other EU Member States it could not enter into an agreement such as the Working Holiday scheme with New Zealand.

The Hungarian position on this matter has not been consistent: while the Ministry of Foreign Affairs stressed the advantages of the Working Holiday Scheme (as seen, for example, in its successful implementation in the Czech Republic), those responsible for internal political and economic decisions were of the opinion that the Hungarian labour market would become too vulnerable in the face of a one-sided opening towards the EU Member States. As a consequence, negotiations with New Zealand on the Working Holiday scheme may only recommence after 2011, when the accession moratorium on the free movement of the EU10 labour force ends.³⁸ In this case, according to the Hungarian Government's decision, the advantages received from an enhanced movement of people between New Zealand and Hungary would not outweigh the economic disadvantages by a one-sided opening of the Hungarian labour market to all EU Member States. At the time of

³⁸ Correspondence with dr. Norbert Révai-Bere, Second Secretary of the Asia-Pacific Department of the Ministry of Foreign Affairs of Hungary, July/August 2007

writing, further academic information about the extent to which this fear is justified was unavailable.

Agreement on Social Security

During one of its high-level visits to Hungary, New Zealand proposed an agreement between the two countries on the mutual transfer of pensions for expatriates. Supposedly, the Hungarian authorities responsible for the pension system had concerns about the security of personal data as they felt the proposed regulations regarding data handling seemed unclear. At the time of this thesis' completion, no definitive answer could be obtained about whether social security would remain on the New Zealand-Hungary diplomatic agenda and when Hungary intended to review this issue.

On New Zealand's side, in her speech at the State Dinner in Budapest on 6th October 2004, Dame Silvia Cartwright summarised New Zealand's main objectives in Hungary as follows (New Zealand Government: Dame Sylvia Cartwright in Budapest 2004).

- 1) To establish bilateral Working Holiday Scheme Agreement to encourage people-to-people contacts, especially the travel of young people;
- 2) To strengthen people-to-people relations between universities, in joint research projects, and in agricultural development;
- 3) To initiate a Social Security Agreement to assist both New Zealanders in Hungary and Hungarians in New Zealand who wish to move back to their home countries to retire;
- 4) To collaborate on global environmental protection questions (e.g. International Whale Commission); and,
- 5) To seek Hungary's support in advocating for the reform of the Common Agricultural Policy of the EU, as well as more general support in the WTO.

Further Diplomatic Visits

Year 2004 ended with the visit of Dr Peter Medgyes, Hungarian Deputy State Secretary of Education and Adam Horvath of the Ministry of Education's IT Department to New Zealand in mid-December. The overall goal of this visit was to explore the possibilities of academic linkages between New Zealand and Hungary. (<http://masseynews...>, 2005) However, despite these good intentions, according to the interviews conducted with academics from universities in both New Zealand and Hungary, it appears to be ultimately impossible to revitalise student exchanges between the two countries without the easing of temporary working opportunities for students (see section 8.5 for further details).

At the invitation of Dame Dr. Kinga Göncz, Hungarian Foreign Minister, New Zealand Foreign Minister Hon. Winston Peters visited Hungary in July 2006. The focus of the meetings during this visit was the possibility of deepening the political and economic relations of New Zealand and Hungary. This visit was followed by that of the Hon. Rick Barker, Minister of Civil Defence and Minister for Veteran's Affairs in October later that year (and facilitated New Zealand representation at the 50th commemorations of the Hungarian Uprising of 1956). Although no particular negotiations were pursued during this trip, "...the outcome was a highly valued continuance of friendship between New Zealand and Hungary."³⁹

³⁹ E-mail correspondence with Hon Rick Baker, 22. August 2007

Based on the information from the Asia-Pacific Department of the Hungarian Ministry of Foreign Affairs in July 2007,⁴⁰ Hungary would be particularly interested in closer collaboration with New Zealand in the following areas:

- 1) Strengthening the relationship between the Hungarian Parliament and the New Zealand Parliament especially in respect of law making. This should be undertaken by meetings between the two countries' parliamentary speakers or deputy speakers as well as by bilateral visits of different committees. The 2008 New Zealand "Speaker's Tour" was a response to this invitation.
- 2) More active relations between different government ministries and departments which would enable the broadening of relations in new areas more effectively. During regular political contacts it would be beneficial for both parties to share their region-specific experiences.
- 3) Collaboration between Hungary and New Zealand within the framework of the Official Development Assistance Mechanism (ODA) in third countries. Hungary's main strategic partnership is in the South-East Asian region – an important area for New Zealand's development policy also – and in particular with Vietnam, and two 'Least Developed Countries', Cambodia and Laos. Besides these development projects, Hungary also provides humanitarian aid for other countries of that region, including for example, Indonesia, Sri Lanka, Thailand, and North Korea.
- 4) Strengthening and widening the existing relationship between universities in New Zealand and Hungary in particular in areas of science and research.

⁴⁰ dr. Norbert Révai-Bere, Second Secretary of the Asia-Pacific Department of the Ministry of Foreign Affairs of Hungary, July 2007

The most recent New Zealand diplomatic visit to Hungary took part within the frame of the much debated 2008 Speaker's Tour. The purpose of visiting Hungary was according to Hon Margaret Wilson multifold: to understand the role Hungary played in the enlarged EU; to understand the working process of the parliament; to explore the possibility to establish a parliamentary friendship group; to increase knowledge about New Zealand; to explore opportunities for economic and cultural exchanges; and to support agreement on the questions of social security and working holiday scheme. In the following the most important findings of the Report of the Parliamentary Delegation presented to the House of Representatives by Speaker Hon Margaret Wilson will be discussed in more detail.

The delegation found that Hungary's interests and concerns were remarkably similar to that of New Zealand concerning electoral systems, climate change, sustainable development and green initiatives. Within the short period of two days, meetings were conducted with the President, László Sólyom, the Speaker of the Hungarian National Assembly, Dr Katalin Szili, the Deputy Speaker, László Mandur, the Minister of Foreign Affairs, Ms Kinga Göncz, Prime Minister Ferenc Gyurcsány, members of the Committee on Employment and Labour, the Constitutional, Judicial and Standing Orders Committee as well as various committees and leaders of the governing Socialist Party and the leading opposition party FIDESZ.

The feared "partying" of the delegation by the NZ press did not eventuate and the reception hosted by New Zealand Ambassador Alan Cook was evaluated as very productive by the participants: beside the delegation 60 members of the New Zealand community, key government and trade representatives, and some academic and cultural representatives attended including Trade Commissioner Jennifer Scoular. Referring back to the key statements of the Diaspora strategy within the Theory of Ethnic Networks the

invitation of the New Zealand Diaspora to the event can be evaluated as a specifically desired (see survey results under chapters 9 and 10) and important step towards the utilization of its assets for New Zealand. The Embassy and the Hamburg Trade and Enterprise office were asked to work together to follow up on possible trade opportunities.

The delegation experienced a special “hands-on” political event when on the day of its parliamentary visit the Government’s coalition partner (SZDSZ) withdrew, leaving Hungary for the first time with a minority government. Accordingly “[t]here was much interest and discussion about how New Zealand operates with a minority government.” (Hon Wilson, April 2008) As the New Zealand Speaker and that of the Hungarian Parliament are one of the few women speakers in the world, Dr Szili was also keen to discuss the position of women in parliament.

Despite the distance and less intense trade relations between the two countries participants from both side identified a wide range of areas where closer cooperation would be fruitful:

- Afghanistan, where New Zealand and Hungary both maintain Provincial Reconstruction Teams;
- renewable energy to get away from Hungary’s dependence on Russian gas;
- climate change: Hungary is geographically a giant basin and the negative impacts of the climate change are already perceivable in agriculture. The NZ delegation expressed its interest in Hungarian president’s Sólyom “Green President” initiative.
- New Zealand’s possible participation in the biennial meeting of the Hungarian Academy of Sciences as an eminent world science forum;
- scientific cooperation in biotechnology, nanotechnology and IT where Hungary already developed a good base;

- academic exchanges: Hungary's internationally acknowledged degrees offered in English in the areas medicine and engineering as well as New Zealand's tertiary education in agriculture (Lincoln University); and,
- FOOD-FRENZ conference in Budapest, September 2008: The aim of the joint EU-NZ conference is "[t]o stimulate collaboration between the EU and NZ food researchers as a means of achieving complementary consumer driven and industry goals and more effectively address some increasingly global issues such as safety, traceability, animal husbandry and sustainability."

(<http://www.foodfrenz.com/bckgrd.htm>)

A special project of common interest is the success of the AHI and Fletcher building project in Várpalota, where the delegation was present for the laying of the foundation stone. "The plant will initially provide 100 jobs. The companies will use the skills and innovation of the Hungarian workforce to further develop their product range. They will also work with the municipality to develop further workforce skills." (Hon Wilson, April 2008)

The question of the Working Holiday Scheme and social security was also discussed. While the EU directive referred to earlier will limit the introduction of the Working Holiday Scheme to 2011, thanks to the delegation there is a positive shift expected from Hungary on the question of social security, especially as the interest of New Zealand staff in Várpalota is also affected. Summarizing their experiences Hon Wilson noted that "[t]he cross-party delegation's role is to open doors, help establish relationships and work together in the interests of New Zealand – leaving it to the professionals to advance economic relationships." (Hon Wilson, April 2008)

As can be seen, there is significant overlap in the diplomatic intentions of the two governments, allowing mutual support of the other country's specific interests (see relevant suggestions in Table 12.3, Chapter 12: Conclusion). The areas which seem to require the most work are largely on the Hungarian side: the questions of the Working Holiday Scheme, Social Security, and Hungary's willingness as a CAP beneficiary to advocate for the reform of CAP in the EU and at the WTO.

8.3 Trade

In discussing the bilateral trading arrangements between New Zealand and Hungary, the question arises why both countries do not concentrate on buying and selling their commodities in their immediate geographic regions. It is interesting to examine what considerations lay behind New Zealand's decision to import aluminium sheet metal from Hungary, and to ask why Hungarians buy roofing material and seeds from New Zealand instead from their much closer European neighbours? When highly specialised commodities are in demand, a similar and cheaper product from a closer country may not be available, and thus in such a situation trade between New Zealand and Hungary could arguably prosper. In the case of seeds, for example, John Paterson, retired director of Pyne Gould Guinness said that, after many experiments with seeds worldwide, they found that the Hungarian tomato seeds responded the best to New Zealand's soil and climate conditions. On the other hand, the seasonal variations between the Northern and Southern hemispheres provide New Zealand with a significant comparative advantage for its fruit exports to Hungary.

It is also possible that if a trader already has connections (whether ethnic or commercial) either in Hungary or New Zealand, that they will prefer to buy commodities through those trusted channels regardless of whether other countries produce and sell similar products at a cheaper price. In this context, the Theory on Ethnic Networks may provide an additional explanation about the background of trade between New Zealand and Hungary.

According to interviews conducted in 2005 and 2007 with expatriate New Zealanders in Hungary and with expatriate Hungarians living in New Zealand, there are certain products which they miss from their home countries. Such country specific commodities are mostly speciality food items like sour gherkins and sour cabbage in wine for the Hungarians or Vegemite for New Zealanders. According to the theory, the more people from a certain ethnic group are present in a given country, the more demand they generate for an ethnic-specific product. As the number of Hungarians in New Zealand is significantly higher than of the number of New Zealanders in Hungary (see the following section on migration and tourism), the imports from Hungary where expatriates are involved are also higher. Alternatively, if the ethnic group in question is too small and the inhabitants of their host country do not favour their products, it might not be worthwhile to import them into the host country. As an expatriate New Zealander living in Budapest noted in 2005, Sealord Mussels and Vegemite have been available only for a couple of months in one of the supermarkets, and before that the closest place to buy these products was in the Austrian capital, Vienna (See Chapters 9 and 10 for more survey results). Clearly in this case, the customer demand for these products was insufficient to warrant them being stocked in supermarkets. There could be a number of reasons for this lack of demand: it might, for example, indicate that there are differences in the culinary tastes of New Zealanders and Hungarians, but it might also point to a failed marketing campaign.

To evaluate the possible effects of Hungary's EU membership on the bilateral trade between New Zealand and Hungary, trade figures between 2000 and 2003 from Chapter 7 have been compared with those from 2004, 2005, and 2006. Imports from Hungary have more than tripled between 2000 and 2007 (Figure 8.2).

Figure 8.2: New Zealand Imports from Hungary 2000-2007 in NZ\$

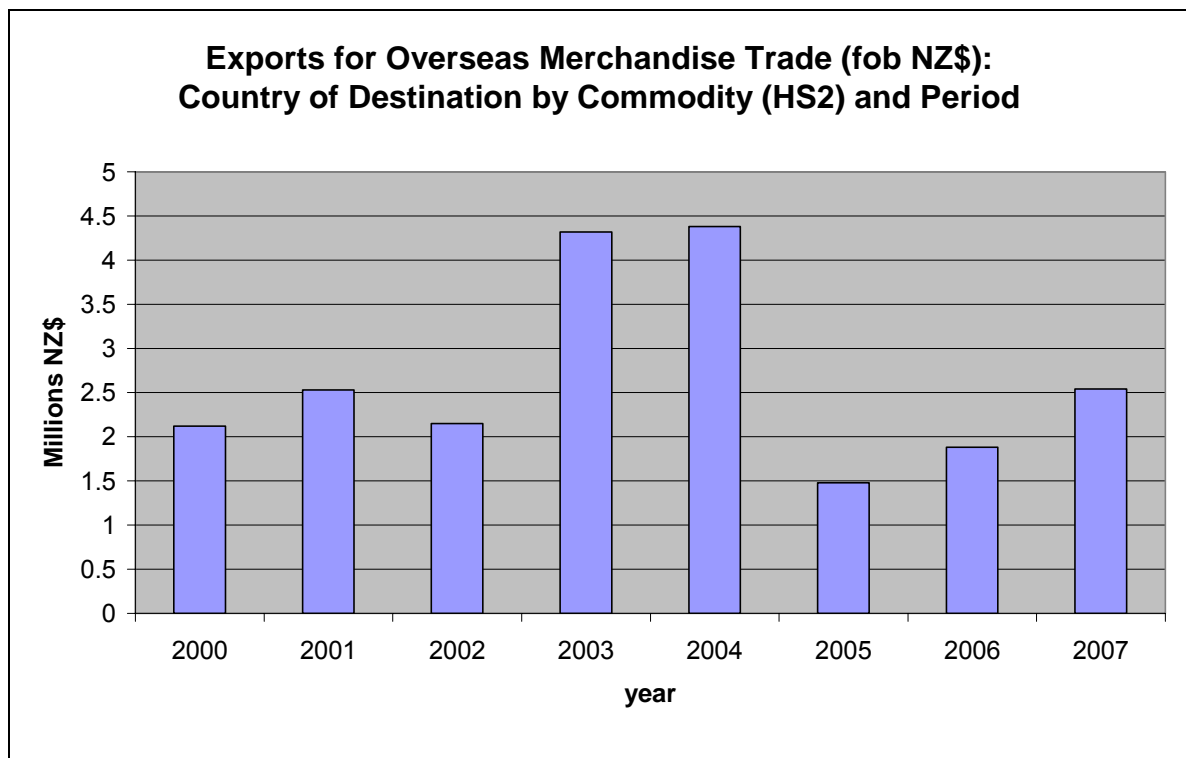


Source of data: Statistics New Zealand, <http://www.stat.govt.nz>, Aug. 2008

The main import products from Hungary were automatic data processing machines, wadding, microphones, motorvehicles, different electronic equipments including medical equipment, tyres, appliances, aluminium panels, and music instruments. (New Zealand MFAT 2007 and Hungarian Ministry for Foreign Affairs, 2007) Higher production standards and guaranteed EU volumes in addition to the cheaper than the average EU price seem to be the leading reasons for this development.

The development of export volumes from New Zealand to Hungary shows, however, a rather declining tendency (Figure 8.3). In quantities that are declining yearly, the leading exports are seeds, iron or steel and machinery, followed by wool, cheese, sheepmeat, kiwifruit, roofing material, electron tubes, scooters, carbon acids, medicines and medical equipment. (Ibid)

Figure 8.3: New Zealand Exports to Hungary 2000-2007 in NZ\$



Source of data: Statistics New Zealand, Sept. 2007 (*end of year data for 2007 not published yet*)

After a progressive development from NZ\$ 2.176.850 in 2000 to NZ\$ 4.737.968 in 2004, the statistical data shows a sharp decline to NZ\$ 1.711.808 in 2005. The trend recovered somewhat in 2006, though still failed to return to the levels seen in 2000. The leading reason for this can be found in the opening up of the Hungarian market to other EU members. Physical barriers have become all-but eliminated within Europe which has resulted in much shorter delivery times. Well established, mainly Western European

companies have devoted the first years after the 2004 enlargement to market penetration which has consequently produced a rather aggressive price war, especially in the food and confectionary and textile markets - a challenge which New Zealand exporters were unable to fully respond to. Years 2006 and 2007 however, showed a continuous positive development. The fall of the Hungarian wine tariffs from 62% to 8% since the country joined the EU might also provide new opportunities for New Zealand wine exporters if they were to launch a robust marketing campaign, as New Zealand wine is not well known in Hungary in general.

Concerning successful collaboration between academic research, industry and government finance when approaching foreign markets, a recent, unique project run at the Department of Management and International Business at the University of Auckland is worth mentioning. As a result of the programme which matches final year MBA students with Kiwi companies to help enter global markets, Senztek, a solar water heating system exporting company started negotiations with a Hungarian manufacturer:

“We were talking to potential customers within two weeks of the students returning from Hungary and I have since visited the market. We hadn’t initially identified Hungary as a potential market so the value to Senztek of this exercise has been far beyond what we originally expected.” (Managing Director Brian Knolles, <http://www.frst.govt.nz/news/MBA-students-power-export-drive>, 31 March 2008)

Another important milestone in the development of economic relations between New Zealand and Hungary is the green field investment by Fletcher Building Ltd. The establishment of a 25 thousand square metre logistics centre in the industry park of Várpalota should provide more than 300 jobs by the end of the decade. (*The Budapest Times*, 06 August 2007) While the global economic importance of New Zealand and Hungary to each other is, according to the trade figures, still very modest, the investments in Central and Eastern European region and the country specific evaluation of local

opportunities do indicate potential for growth, as the example of Fletcher Building Ltd. in Hungary demonstrates.

8.4 Migration and Tourism

In the 1996 New Zealand census, fewer than 2,000 people identified themselves as being primarily Hungarian. The census of 2001, recorded only 987 Hungarian-born New Zealand residents (MFAT 2007) and the census of 2006 registered 1,254 residents born in Hungary. (<http://www.stats.govt...birthplaces.xls>) In the same census, slightly more than 1,400 people claimed to speak Hungarian. Comparing the figures from 1996 to those of 2001, a sharp decrease of more than 50% in the number of Hungarians in New Zealand is evident. The reason for this drop could be twofold: firstly, the number of refugees from 1956 may have become deceased, as those who were older than 30 in 1956 would have been more than 75 in 2001. The biggest reason, however, might be the return of expatriate Hungarians to Hungary at the beginning of the new millennium. Hungary's prospective EU accession and its positive economic developments at this time might well have attracted many to return. According to the last census, however, the number of Hungarian immigrants in New Zealand has once again begun to increase. The enormous deficit of the state budget which was revealed in 2006 (see Chapter 6 for more detail), rising tax burdens and the worsening of living conditions in Hungary in recent years has arguably prompted many, especially those under 40, to look for better living opportunities elsewhere. According to the information received from the Hungarian Ministry of Foreign Affairs, within the last five years 50 Hungarian families have settled in the Christchurch region of New Zealand alone. (Ministry of Foreign Affairs of Hungary, 2007) There are Hungarian clubs nearly in all major cities of New Zealand, and a quarterly bilingual bulletin called "Magyar Szó" (Hungarian Word) is also published, with the following mission:

The aim of the Magyar Szó (ISSN 1171-8978) is to serve the interest of Hungarians living in New Zealand, by publicizing matters of interest and importance to them, and by documenting the life of the Hungarian community in New Zealand. (http://hungarianconsulate.co.nz/mszo_en.html)

The number of New Zealanders living permanently in Hungary is estimated to fluctuate between 30 and 40.⁴¹ According to the official immigrations figures, no New Zealanders applied for permanent residency in Hungary in 2003 and 2004, and only one person applied in 2005. On the other hand, 17 New Zealanders applied and received temporary work visas for one or two years in 2004 and 14 people in 2005.⁴² These short-term immigrants did not establish any associations or clubs; however, they do maintain an e-mail newsletter and a smaller group of around 10 people are in frequent contact with each other.

According to international empirical studies, immigrants and expatriates are an excellent source of information for countries when they are approaching foreign markets, as was discussed earlier in Chapter 2. As the interviews with expatriate New Zealanders (see Chapter 9) revealed, they would be keen to help represent New Zealand at different occasions and to provide assistance for New Zealand trade or diplomatic representatives when they first approach Hungary or its region, but they currently feel “underutilized” and rather neglected by the New Zealand government in this regard.

It would be useful to know how many New Zealanders have settled in the Central and Eastern European region more generally and whether they have a closer relationship with their countries of origin. Creating a forum or list of expatriate New Zealanders living in

⁴¹ List of New Zealanders with Hungarian contact, received from Rezső Sárdi, New Zealand Honorary Consul to Hungary, August 2005

⁴² Data provided by Dr. Zoltán, Egyed director of the Foreign Security Directorate of the Office for Immigration and Citizenship, 04/05/2006, Budapest

Central and Eastern Europe may provide an excellent source of up-to-date information on the market opportunities for a small country, like New Zealand.

Tourism between New Zealand and Hungary is very modest in both directions. In the rankings of overseas visitor arrivals by country of residence, Hungary was not within the top 60 countries in New Zealand in 2006. From the Central and Eastern European region, the Czech Republic was ranked 48th and Poland ranked 55th. (Statistics New Zealand: Overseas visitors...2006) These figures show that visiting New Zealand as a tourist destination is still not attractive enough to draw Hungarians. There are arguably two key reasons for this: firstly, the lack of an adequate New Zealand marketing campaign in Hungary; and, secondly, the budgetary limitations on the Hungarian side. Travelling to New Zealand remains very expensive in relation to travelling to other tourist destinations that are also known as 'exotic'. Those Hungarians who can afford an 'exotic' holiday prefer rather traditional destinations like the Maldives, Thailand, Singapore, the United Arab Emirates, Mexico, China, Tahiti, and Indonesia. In comparison to these countries, New Zealand could have a similarly exotic appeal for Hungarians (for example Tahiti is as far as New Zealand but better promoted), however as yet this does not appear to exist. In general, the preferred holiday destinations for Hungarian tourists are much closer to home and include Croatia, Greece, Spain, Austria, Italy, Tunisia, and Turkey. (GfK Hungária Market Research Institute, 03. June 2004)

Considering the lack of New Zealand tourists in Hungary, it is less a question of money and more a lack of information on Hungary as a worthwhile tourist destination that is currently hindering the development of this side of the relationship. The Czech Republic

has marketed itself (and especially Prague) much more effectively in New Zealand and Australia than has Hungary or its capital, Budapest.

8.5 Research and Educational Projects

No up-to-date macro level data could be obtained on any bilateral cultural exchanges between New Zealand and Hungary. New Zealand music educators, however, would welcome the opportunity for a wider range of music students from New Zealand to learn and perform in Hungary, but according to them, it is very difficult to receive scholarships in New Zealand for musical study. Bilateral exchanges might offer a cost-effective way of doing this within the framework of Hungarian–New Zealand academic collaborations and joint music research projects.⁴³ Continuing within the context of music, the New Zealand Tower Youth Choir toured Eastern Europe in 2004 and during this trip performed a concert in Hungary. In other cultural areas, however, there was no available data on any regular exchanges or connections between New Zealand and Hungary, indicating perhaps that Hungarian artists are not well known in New Zealand and nor are New Zealand artists in Hungary.

Beside the long-standing research projects in the area of dairy production and agriculture as described in Chapter 7, no new collaborations in the last two years between universities or research centres could be identified. The Hungarian Saint Stephen University submitted in February 2008 a description of its research activities to the New Zealand Berlin Embassy with the request to forward it to relevant New Zealand research centres. Regular student exchanges between the two countries are also not typical. Although all seven New Zealand universities were requested to provide information on their registered Hungarian

⁴³ Interview with Emma Sayers, Conservatorium of Music, Massey University, Wellington, 31/05/2005

students, just four Hungarians could be identified: three of whom were from University of Canterbury and one from Massey University, Palmerston North. These students are already permanent New Zealand residents or New Zealand citizens, and thus they did not come within the frame of an official exchange or scholarship programme. No New Zealand student currently enrolled in a Hungarian university could be identified.

The reasons for the lack of Hungarian students in New Zealand are similar to those explaining the lack of Hungarian tourists in New Zealand. As is common everywhere, Hungarian students typically have a very limited budget and studying abroad for a period is a desire of many. As such there are numerous scholarships available for overseas study within the European Union, as well as to the USA, and even to Australia; however few if any such scholarships exist for New Zealand. Additionally, the failed ratification of the Working Holiday Agreement between New Zealand and Hungary arguably deters even those students who would contemplate beginning to study in New Zealand without holding a scholarship (see the comments of survey participants from 2005 and 2007 in Chapter 9 and 10).

While the situation concerning student programmes between New Zealand and Hungary is far from ideal, the situation is even worse in the case of attracting Hungarians to New Zealand to learn English as a second language. Budget restrictions and the lack of a Working Holiday Scheme make it difficult for Hungarians to afford an English course in New Zealand. By comparison, the UK is much closer and although living costs are higher there than in New Zealand, working while studying is a viable and preferred option for many (see Chapter 11 for more).

8.6 Summary

The number of bilateral diplomatic visits between New Zealand and Hungary over the last two and half years seem to be at a satisfactory level, however have not brought about significant developments in the relationship between the two countries in areas outside of economics and politics, such as research, educational, cultural or sporting exchanges, or tourism. Bilateral tourism remains very modest as are the numbers of students moving between the two countries.

Trade relations between the two have lacked consistency: although imports from Hungary have seen a steady increase over the few last years, New Zealand's exports to Hungary back dropped sharply in 2006 to fall below the level of the year 2000. Despite this, a slow recovery is anticipated, based on the half yearly data from 2007.

While macro data is useful for monitoring the trends of developments in different areas and for building an opinion on quantitative measurable entities (like export-import data, number of tourists etc.), the data contain limited information about what is going on behind the statistics. Typically, numbers and statistics do not provide answers as to the cause of trends or what factors might hinder developments, whether they are able to be totally or partially eliminated, or whether there are alternative areas of trade worth looking at when dealing with a certain country.

In order to add a deeper meaning to the quantitative macro-level results, three types of qualitative research methods have been applied in New Zealand and in Hungary in 2005 and 2007: questionnaires, interviews, and case studies. The results of the surveys are presented and discussed in the next Chapter.

Chapter 9

RELATIONSHIPS BETWEEN NEW ZEALAND AND HUNGARY – SURVEY

ANALYSIS 2005

“I never hear anything about New Zealand here... Also no Vegemite on sale (nearest shop in Vienna)!”

“Mind you, I did see some Sealord mussels in the Hungarian CORA supermarket...”
Comments of New Zealander survey participants living in Hungary⁴⁴

9.1 Introduction

The aim of this chapter is to look at how bilateral relations between New Zealand and Hungary had developed one year after Hungary’s EU accession, from the point of view of individuals engaged in bilateral relations between the two countries. To complete the picture based on the objective data sources discussed in the previous chapter, surveys were conducted in 2005 in both New Zealand and Hungary (Sections 9.2 and 9.3). The participants of the surveys came from different sectors, but the common feature was that all have had, or still do have some kind of connection or interest in the two countries. The questionnaire was divided into three main sections:

- Section A: Your background
- Section B: Your relationships between New Zealand and Hungary
- Section C: European Union – New Zealand - Hungary

Both the numerical results of the surveys and the comments of participants in the surveys and interviews provide valuable insights into the experiences and perceptions of those personally involved in the development of bilateral relations between New Zealand and Hungary. A shorter follow-up survey was also conducted in June-July 2007 in both

⁴⁴ Survey conducted by author in Hungary between August and October 2005.

countries which focused on the five most important results of the previous surveys which will be discussed subsequently in Chapter 10.

9.2 Survey Results - New Zealand (May-July 2005)

Potential survey participants in New Zealand were identified through an internet search using the key words 'New Zealand' and 'Hungary', as well as using the contacts of Don Walker (ex-Ambassador to Hungary) and Klara Szentirmay (Hungarian Honorary Consul to New Zealand). Those participants identified initially then further recommended other participants. Thanks to this "snow-ball" effect, the number of potential participants within New Zealand grew to 32 over a period of five weeks. Institutions like New Zealand Trade and Enterprise (NZTE) and Market New Zealand were unable to provide information about enterprises with export interests in Hungary, or forward a request to them.

Requests for participation were sent via e-mail and the questionnaires were sent via post. One company declined to participate. Eleven completed questionnaires were returned within the first two weeks. Reminders were sent out to those who had received the questionnaires after three weeks. The following analysis is based on the 27 returned questionnaires as at 31. July 2005.

9.2.1 Background of Participants (Section A)

The majority of survey participants (70%) were only resident in New Zealand, while the other 30% resided in both countries. Just 8% of individual participants were resident both in Hungary and New Zealand as opposed to 44% of business participants. This figure indicates that the sense of 'being at home' in both countries is especially important for businesses.

As residents of the countries under investigation speak different languages, participants were also asked to give information on their language acquisition. According to the responses, those individuals involved in international trade spoke the most languages, followed by the academics and scientists: over three-quarters of business participants spoke both English and Hungarian. Many also spoke other languages such as German, Japanese and Turkish. The majority of academics also spoke two or three languages (most commonly German, Spanish or Russian).

When asked what they perceived to be the key barriers to the development further relations with Hungary, these groups did not see language difficulties as a major problem. However, those involved in governmental or other non-profit institutions did remark on language difficulties as a significant obstacle, with 90% of governmental participants speaking only English.

9.2.2 Nature of Relations between New Zealand and Hungary (Section B)

Section B of the questionnaire included more specific questions about the participants' occupations, companies and personal experiences.

The governmental organisations participating in the survey were city and regional councils, the New Zealand Ministry for Agriculture, New Zealand Trade and Enterprise, the Hungarian Honorary Consulate Wellington, and the Hungarian Embassy to Australia and New Zealand in Canberra. Other non-profit organisations included various research centres including universities (particularly geology, music, and psychology departments), and an early intervention health provider. The participating non-profit organisations were all New Zealand ones, with the exception of the Hungarian Embassy and Consulate. University

departments also maintain relationships with their Hungarian counterparts, although they expressed the desire for more intensity in this dialogue.

The business participants represented different industries such as exporters of agricultural technology, agricultural consulting, export-import wholesale and marketing agencies, importers of Hungarian food/condiments/spirits/medical technology, exporters of New Zealand industrial products (polythene pipe fittings, valves, heating stoves), English language schools, tourism agencies, industry services (market development, lobbying and promotion in the EU), resource and research publication, professional development programme provider, and a computer-based technology for shoe inner-soles called orthotics.

Two of the participating businesses were under joint Hungarian-New Zealander ownership, one was 100% Hungarian-owned, and the others had New Zealander owners. All of the business participants, with only one exception, had current business interests – either direct trade or promotional and lobby work - in Hungary. The exception to this expressed a strong interest in Hungary, as it was already present in the Polish market.

All but one of the business participant's head office were located in New Zealand, (the exception being in Hungary). None of the businesses had a direct subsidiary in Hungary, however, 33% had part and full-time representatives in Hungary (comprising between one and six individuals). 75% of the active businesses estimated their turnover from businesses with Hungary in 2004 as being between NZ\$ 10,000 – 100,000 and 25% with the remaining part having a turnover of less than NZ\$ 10,000 (see Table 9.1).

Table 9.1: Turnover Resulting from Businesses between New Zealand and Hungary, 2004

Turnover in NZ\$	% of active business participants
under 10,000	25%
between 10,000 – 100,000	75%

Participants were asked how they came into contact with Hungary, given the two countries geographic distance and their vastly different socio-cultural and historical backgrounds.

A quarter of all individual participants had no contacts in Hungary at the time the survey was conducted, while all others mentioned that they had regular contacts with Hungarian friends, educational and collegial contacts, and former diplomatic and business contacts. These answers correspond with the critique on Ethnic Network Theory, namely that ethnic networks not only exist among those involved in trade relations but also across other members of the Diaspora. All of those without current contacts expressed a desire for more information about Hungary and Central-Eastern Europe in general, as well as an intention to visit Hungary, or work on establishing contacts so that they could set up commercial enterprises and revive former contacts.

None of the New Zealand governmental organisations had direct contact with their Hungarian counterpart ministries. The New Zealand Ministry of Agriculture acts through its Ministry for Foreign Affairs and Trade (MFAT) when requested. Similarly, the NZTE acts via its agents in Milan and London when information is needed. The desire or necessity to build up more direct contacts in Hungary was not expressed by any representatives of the governmental bodies.

Among the business participants the most successful means of initiating relationships were revealed to be through development of networks; individual initiatives; and, joint representation for several small companies.

The statements from business participants on the importance of networks when initiating relationships in a new country is consistent with the international findings on the Theory on the Role of Ethnic Networks in International Trade (herein referred to as 'Ethnic Networks Theory').

With the exception of NZTE, all survey participants approached Hungary directly and no other country was used as a platform for entry into the country. In contrast, NZTE engaged with Hungary through its offices in Milan, and London. While NZTE used independent contractors when seeking information about Hungary, no other participant mentioned any kind of consultancy services. According to further information received through interviews, there is a demand for public, official sources of information about conducting business in Central and Eastern Europe, or in the new EU Member States specifically. At present, no such resources are available. Once again, the emphasis of the Ethnic Networks Theory on the role of ethnic networks is appropriate in such a situation when information on market opportunities is scarce.

Individual (non-business) participants also came into contact with Hungary through a variety of ways: 16% of individual participants were born in Hungary, while 25% had read about Hungary in newspapers. Others were participants in official projects where they had been sent to Hungary as conference participants, one as a trade commissioner, an ambassador, businessmen, contract employees, working on agricultural projects or as a joint research participant.

When asked, “Who or what institution was the most useful source of information about doing business in Hungary?”, the responses from participants indicated a clear pattern of self-reliance. Some illustrative responses included:

“Our agent who was based in Hungary.”

“Myself.”

“My Hungarian company.”

“Own personal contacts in Hungary.”

“The Internet.”

Overall, the most useful sources of information about Hungary emerged as being travel to Hungary, or information gained through an employer, friends, personal contacts with the host organisation, New Zealand businesses in Hungary, and contacts with ex-patriot Hungarians as well as former diplomatic and business contacts. At the time of the survey there was no organised network for those involved in bilateral relations between New Zealand and Hungary, and the statements of participants revealed how difficult it might be to initiate such contacts for entrepreneurs who do not have any contacts as cited above. The statements about information gathering support the assumption of the Ethnic Network Theory on the role of expatriates as intermediaries when approaching foreign markets where limited information is available.

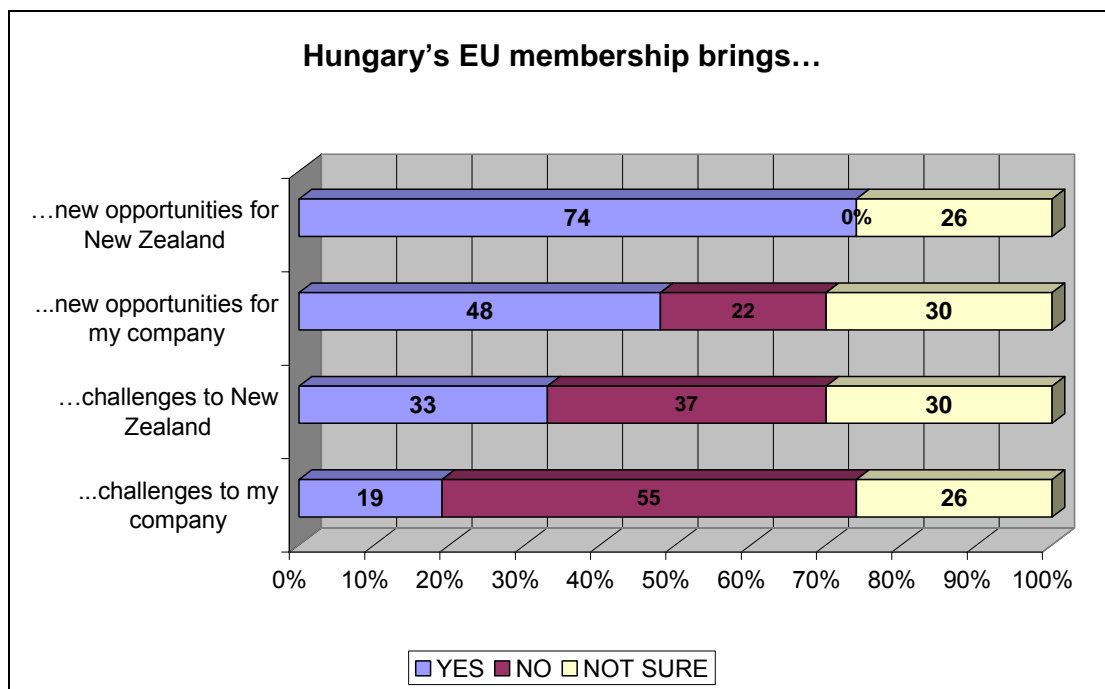
Business participants were posed an additional question regarding their short-term (up to 5 years) and long-term (5-10 years) goals towards Hungary. For each period the stated goals were nearly identical: increase sales, brand awareness, end user base, find stable business partners in Hungary, introducing food processing technologies from Hungary to New

Zealand, and to establish a contract with either a governmental organisation or a large company.

9.2.3 Perceptions of New Zealand–Hungary Relations since 2004 (Section C)

In the first question under Section C of the questionnaire, participants were asked to express their opinions on the possible consequences of Hungary’s EU membership on New Zealand and their own organisation (Figure 9.1). While this question was particularly relevant for business participants involved in international trade (the significant majority felt there would be more opportunities both for New Zealand and their own company after Hungarian accession), most of the participants from the other two groups also saw more opportunities for New Zealand. This is clearly indicated by the cited comments of participants to this question.

On the other hand, participants involved in governmental bodies expressed more concerns about the impact of enlargement, in particular questioning the macroeconomic relevance and benefits for New Zealand from more involvement in the new EU Member States. This approach corresponds well with the assumptions of the traditional Small State Theory about the focus of small countries on trade when deciding about foreign political relations. According to our critique on traditional Small State Theory, however, following a “no trade – no relations” approach would deprive the country from significant opportunities in other areas. This statement is supported by the long list of possible areas of collaboration identified during the 2008 Speaker’s Tour (see earlier Chapter 8.2).

Figure 9.1: Possible Impacts of Hungary's EU Membership on NZ

One business participant with established contacts in Hungary developed over 10 years said that he found it more difficult to cope with the new circumstances resulting from Hungary's EU membership. Other responses to this question from participants elaborated on the statistics discussed in the previous chapter and provided some interesting insights:

Optimistic Comments:

"There are more 2nd/3rd generation Hungarians interested in an "EU"-Passport. There are more companies seeking information from the Hungarian Consulate in NZ with a view to import/export, both from NZ and Hungary."

"As new EU-Member, Hungary could play vital role to link New Zealand research to the mainstream of EU researchers. This is the basic idea behind our New Zealand-Hungary-German research collaboration plan."

"Hungary's accession to the EU provides mainly opportunities for agricultural exports because of the increase in wealth expected, due to inflows of investment and raising EU payments; and because of greater certainty around the rules applying to trade (now under the umbrella of our wider relationship with the EU)."

"The EU as a market is larger and easier accessible than Hungary alone."

“Hungary becomes part of the EU’s legal structure and market.”

“While Hungary is a significant agricultural country, it does not offer a large threat or opportunity to the New Zealand meat industry. As an EU-member it is, however, a co-decision maker and one with relatively liberal intents and inclinations. We may therefore find in H. a disposition to sympathise with our industry’s objectives.”

“EU agricultural subsidies now go into Hungary, hence increased agricultural activity.”

“Hungary provides an easier access to other countries, new markets.”

“Clearer business guidelines.”

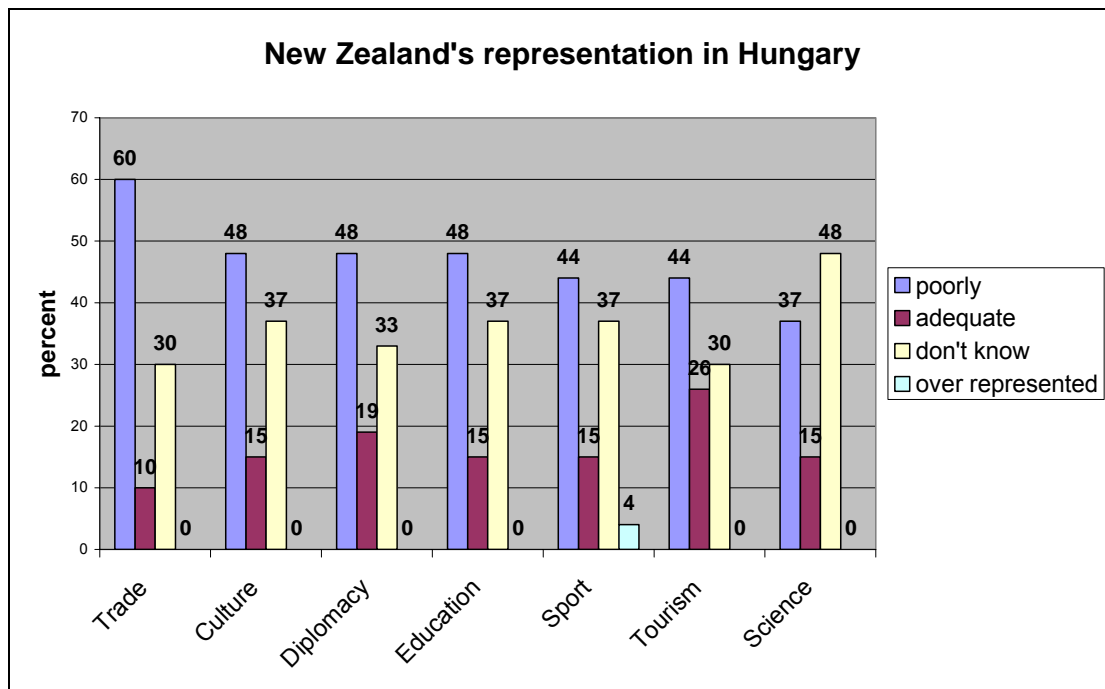
Comments of Concern

“Hungary could provide a springboard into the EU markets but New Zealand’s distance could prove to be a challenge in making this a reality.”

“There are potential opportunities for New Zealand, but on a global scale these are probably not significant for our economy in comparison to other opportunities globally.”

“It is a challenge from a negative point of view!!! Everything has become more expensive: raw material, costs of transport, post, etc.! Everything seems to be less secure because of reorganisations!! The changes make relationships and contacts more difficult. We had to change even our import process. It was better earlier: the transport was more stable, easier, cheaper and more reliable.”

The next question regarding the level of New Zealand’s representation in Hungary also attracted many written and verbal comments from research participants indicating the importance of this issue for them. The decisive majority – especially business participants – were dissatisfied with the level of representation across all areas. Even those who ticked “adequately” commented that there is both room and the need to do more, especially in the areas of business, education and science. Figure 9.2 shows the aggregate perception of all survey participants across the areas *Diplomacy, Trade, Tourism, Culture, Education, Science, and Sport*.

Figure 9.2: New Zealand's Representation in Hungary

As is evident in the above figure, 'Trade' received the highest number (60%) of responses claiming that New Zealand was "poorly represented" in Hungary, and just 10% of the participants considered it "adequate". Although 'Science' attributed the lowest number to the 'poor representation' category (37%), the group did attribute the highest ranking (48%) to the "Don't know" category. Arguably this finding indicates that the level of public information about New Zealand's scientific position in the international arena is largely unknown in New Zealand.

Participants in the 'Tourism' group awarded the highest score of 26% in the category 'Adequately represented' and also the lowest to the 'Don't know' response (30%). The only area that was afforded an 'Over represented' response was Sport (4%), arguably denoting the one-sided image of New Zealand as a sports nation (particularly rugby). Looking at Figure 9.2 as a whole, it is obvious that most of the participants chose between 'Poorly represented' and 'Don't know'. The high percentage in the 'Don't know' column

(an average of 36%) suggests a low level of public information. This is especially unsatisfactory considering the fact that the survey participants already had a particular interest or involvement between New Zealand and Hungary, and thus were more likely to actively seek information on the two countries. A random, New Zealand wide sample would arguably provide an even more negative result.

Comments from satisfied participants:

“New Zealand is lightly represented in all spheres. Realistically, however, in view of New Zealand’s resources I do not think greater representation is realistic. Maybe some kind of science/education agreement supporting bilateral contacts to support the non-resident diplomatic representatives.”

“Current representation is adequate for current level of trade, but there is room to do more as trade increases (and to help with that.)”

“Trade (representation) adequate relative to total opportunity.”

“New Zealand Honorary Consul in Hungary is good.”

“Hungarian people are very well informed about New Zealand.”

Comments from dissatisfied participants:

“The removal of the trade commission for Central Europe and closure of the representative offices were fatal errors!”

“Very disappointed with Government’s effort in the period 1985-88. Not sure if it is any better yet.”

“New Zealand’s diplomatic representation from Berlin is inadequate – too distant, stretched resources, poorly placed to learn about Hungarian opportunities.”

“Perhaps the new Polish embassy will help, current situation is very ad-hoc and reactionary, rather than long-term developmental.”

“There is a lack of information about New Zealand.”

“A few TV programmes (in Hungary) about New Zealand attract tourists here. As far as the other things are concerned New Zealand doesn’t feature on the map.”

“I hold nearly 30 seminars in Hungarian Universities about New Zealand. I could see that even university students know nearly nothing about New Zealand.”

“Science and technology are underrepresented. No information, no potential forum and no valid bilateral agreement between the two countries that could help to move academics...”

“I don’t think Hungarian educators know about the unique research and programme developments done in New Zealand and vice versa, New Zealand educators are unfamiliar with Hungarian educational programmes and research.”

New Zealand’s engagement in Hungary is also unimaginable without reliable and accessible information on Hungary back in New Zealand. Most participants (85%) were of the opinion that the information available about Hungary is poor and not up-to-date, while the remaining 15% believed it to be adequate.

Comments of Participants:

“Hungary should promote herself as a new EU-Member!”

“Hungary should do more promotion as a tourist destination.”

“An average New Zealander put Hungary in to Eastern Europe instead of Central Europe... There is a lack of up-to-date information on Hungary: The way Hungary’s historical background was taught in New Zealand and what New Zealand people know about Hungary deters many from Hungary (main information: Attila the Hun, Hungary as Nazi country during the World Wars and Hungary as a poor country under Soviet Communism oppression.) ”

“Large number of New Zealander knows very little about Hungary. Hungary is not really promoted as a tourist destination. New Zealander’s information usually is historic and generally told by Hungarian who left in very difficult times. Therefore not an accurate picture of today’s modern Hungary.”

Interviewees gave a harsh critique of New Zealand’s education system, in particular condemning the lack of obligatory subjects such as geography and history, at least at a level that would make students aware of the other parts of the world and its main political, economic and culture-historical developments. On the other hand, there is arguably an obligation on the part of Hungarians to promote a more comprehensive picture about the rich cultural-historical heritage and economic potential of their country.

Participants were also asked to indicate the factors they believed hindered either the creation or maintenance of relations between New Zealand and Hungary (Table 9.2).

Table 9.2: Hindering Factors between New Zealand and Hungary

Hindering Factors	% of all participants
Distance	81%
Language barriers	51%
Lack of market knowledge	51%
Lack of networking	51%
Lack of financial investment	33%
Unfamiliarity with customs and law	25%

The majority of participants (81%) made reference to the distance between Hungary and NZ as the most important barrier to deepening the relationship. One participant suggested, however, that distance cannot be a critical factor because Germany and the UK both have closer relationships to New Zealand and are as similarly distant as Hungary. Language barriers, and a lack of market knowledge and networking (each 51%) were jointly the second most frequently mentioned factors. A lack of investment and an unfamiliarity with customs and law seem to be less important to respondents in terms of influencing the creation of relations with Hungary.

Two aspects – a lack of market knowledge and networking – were also stressed in personal interviews referring to the need for more intense people-to-people relationships and a reliable New Zealand information centre in Central Europe. According to the international

conclusions derived from empirical studies (as discussed in Chapter 2), the use of ethnic networks and immigrants is especially beneficiary in overcoming problems like language difficulties and lack of market information.

Comments of Participants:

“Distance is the least important (see UK or Germany). Major lack of market knowledge and effort (with 1 or 2 notable exceptions). However, the situation is no worse than for other Central European countries. Difficult to see this changing in the short term given limited resources of most New Zealand firms; emphasis given in New Zealand to opportunities in Australia, Asia and America, lack of real encouragement by Government (eg TRENZ⁴⁵).”

“Unrealistic expectations on New Zealand’s part make it nearly impossible for Hungarian entrepreneurs to make it here (too much money required at outset.) Lack of information/promotion in each country to the other.”

“Political and economic uncertainty. Companies seem to focus on price rather than quality. Lack of trust.”

“When we required promotional materials (posters, flags, Kiwiana), etc. for seminars held about New Zealand throughout Hungary, all we got was 3 posters (NZ Tourism Office, London).”

In order to benefit more from the opportunities in Hungary, the majority of participants (70%) believed that there needed to be more information on market developments in Hungary and in Central and Eastern Europe. As the following comments of participants reveal, more involvement from NZTE side and other governmental bodies were also expected.

Comments of participants:

“Government subsidies to help efforts to propagate New Zealand in Hungary and Central Europe.”

⁴⁵ “Tourism Rendezvous New Zealand (TRENZ) is New Zealand’s largest annual international tourism business event. It features New Zealand’s leading providers of visitor accommodation, transport, activities and attractions, as well as destination marketers.” <http://www.trenz.co.nz/press-room-overview/overview.asp#what>

“Lack of government support.”

“A NZTE representative in Budapest, at least part-time.”

“Promotion of business opportunities needs to be addressed at government level, both in Hungary and New Zealand. Hungary has to raise her profile as a nation of reputable manufacturers due to lack of exposure and knowledge in New Zealand.”

“Lack of information about the continuous changes.”

“Broader information about possible trading companies/partners. More information in English about what companies in Hungary are interested in trading with New Zealand and what they have to offer.”

“Money.”

“We are working on to collect possible scientific fields where potential collaboration could be manageable.”

These expectations of the survey participants correspond with the criteria of a successful Diaspora strategy as set out under the critique of Ethnic Network Theory in more details: international empirical studies support the finding that governments should play a more active role to mobilize their Diasporas effectively. Some participants also used the “any other comments” option at the end of the questionnaire to provide further comments on this topic:

“It is very valuable to realise the different cultural perspective between New Zealand as an isolated, young country and Hungary: the pride and self-reliance of Hungary is really noticeable.”

“Even back in 1983-84 I found Hungarians interested in finding out about countries such as New Zealand. They were also very keen to speak and learn English. The value Hungarians placed on music and culture was very high...The Kodaly Institut, in particular, has an international reputation for music education. New Zealand may benefit in future from having more Hungarian musicians immigrate here.”

“I think small countries should promote their unique developments and do more cooperation with each other to reduce the hegemony of big countries (such as the USA), whose research and knowledge in particular areas often dominates the market not because of excellence but due to other economic and political factors. Small countries could cooperate better to claim space for their cutting edge research and developments. New Zealand and Hungary could do it in education where they both have developed

programmes not known elsewhere (Hungary: Zsolnay Primary School Programme and New Zealand's restorative practices in schools as well as narrative counselling.)”

9.2.4 Summary of Survey Results

As witnessed by the high response rate (31 from 32 agreed to participate, and of these, 27 returned the questionnaire by the deadline, 31 July 2005), all of the research participants were very open, supportive and interested in the project. Many of them offered additional individual comments in the questionnaires. In general, it can be said that individuals directly involved in any kind of interaction between New Zealand and Hungary (whatever the nature) evaluated the need for more intense relations between the two countries differently from those who were part of large organisations with interests in different areas and countries (most of these being governmental or semi-governmental organisations). This is understandable considering the difference between their macro- and micro-environmental points of views. While governmental bodies emphasised the low economic relevance for New Zealand of conducting business in Central and Eastern Europe, those individually involved wished for more governmental support and were constantly thinking of long-term possibilities and benefits in the new EU Member States, as well as in non-traditional areas of engagement. Many participants from a non-governmental background also stressed that a higher direct presence of New Zealand in different spheres in Hungary (and in Central-Eastern Europe more generally) would result in political and economic benefits for New Zealand in the EU.

The following data from questionnaires and interviews conducted in Hungary supplement the presented results not only by offering a Hungarian perspective, but also by providing the perceptions of New Zealanders currently living in Hungary.

9.3 Survey Results - Hungary (August- October 2005)

Potential participants for the Hungarian field-work were identified in a similar manner to their New Zealand counter-parts - through internet search using the keywords 'New Zealand' and 'Hungary', through Don Walker (an ex-New Zealand Ambassador to Hungary), Klara Szentirmay (Hungarian Honorary Consul to New Zealand) and Rezső Sárdi (New Zealand Honorary Consul to Hungary). The number of potential participants in Hungary grew over a period of 7 weeks to 32. The institution ITDH (International Trade Development Hungary) were unable to provide any new information about enterprises with export/import interests between New Zealand and Hungary, as according to the institution, they are very seldom approached by those interested in bilateral business. This response indicates that, consistent with the assumptions of the Ethnic Networks Theory, the value of personal references still outweighs that of internet databases when initiating business contacts in a foreign market.

Requests for participation were sent via e-mail and postal questionnaires. Six individuals declined to participate. Fifteen questionnaires were returned within the first two weeks and reminders were sent out to those who had received the questionnaires but not returned them after three weeks. The following preliminary analysis is based on the 21 returned questionnaires as at 31 October 2005.

9.3.1 Background of Participants (Section A)

Half of the participants were just resident in Hungary, 30% only in New Zealand and the remaining 20% resided in both countries (all of whom were all expatriate New Zealanders). The majority (70%) of business participants were resident either in both

countries or in Hungary, indicating the importance of maintaining a close presence to the market.

Participants involved in governmental or educational institutions (including academics/scientists) were fluent in most of the key foreign languages that are widely used in Hungary. All of them spoke at least three languages (English, German, and Hungarian) and some also a fourth language. In response to a later question in the questionnaire concerning barriers to the development of further relations between New Zealand and Hungary, just 25% of this group thought that language difficulties were actually a major problem. Although 89% of business participants spoke both Hungarian and English, the majority of this group (71%) considered language barriers to be a significant obstacle. Interestingly, none of the research participants from Hungary were monolingual. Arguably, this multilingualism highlights the importance of linguistic diversity and knowledge in Europe, a fact also stressed in the interview responses.

9.3.2 Nature of Relations between New Zealand and Hungary (Section B)

In the sample, the Governmental organisations were the Hungarian Ministry for Foreign Affairs, the Hungarian Ministry for Economics, and the New Zealand Honorary Consulate in Budapest. Other non-profit organisations were different universities (University of Kaposvár, Corvinus University, Szent István University, West-Hungarian University). All of the non-profit organisations belonged to the Hungarian government. Half of the non-profit or governmental organisations had active relations with their New Zealand counterparts, while the other half expressed a strong desire to establish common projects.

Business participants represented a variety of different industries such as importers/exporters of agricultural technology, importers/exporters of live animals and breeding material, farm equipment, business, audit and tax consulting companies, travel agencies, real estate brokerage and consultancy, representation, trade and engineering of roofing systems made in New Zealand, the film industry, and television information technology. 44% of the participating businesses were owned fully or partially by New Zealanders, 11% were joint Hungarian-New Zealand enterprises, 22% belonged just to Hungarian owners and a further 22% were under foreign ownership (neither Hungarian nor New Zealander). 66% of these businesses had their head office in Hungary, 22% in New Zealand and 22% in a third country. The latter two groups had either representatives or full- or part-time employees in Hungary. The number of employees or representatives in Hungary varied between a single person and around 26. Table 9.3 shows their turnover resulting from businesses between New Zealand and Hungary.

Table 9.3: Turnover Resulting from Businesses between New Zealand and Hungary, 2004

Turnover in NZD	% of active business participants
under 10,000	20%
between 10,000 – 100,000	20%
between 100.001 – 500,000	0%
between 500,001 – 1 Million	40%
over 1 Million	20%

Individual participants were partners in international consulting companies, language teachers, ex-diplomacy consultants and one New Zealander resident in Germany with past business experiences in Hungary.

New Zealand participants were asked how they had come into contact with Hungary, and the Hungarians how they had come into contact with New Zealand. All but one of the non-individual participants originally from New Zealand had come into contact with Hungary through official workplace arrangements, educational institutes or as participants in intergovernmental projects. Corresponding with the theoretical assumptions, these connections arguably highlight the significant impact official visits and bilateral arrangements have for future business contacts. One New Zealand participant had used a representative in the United Kingdom as a springboard to Hungary, while a Hungarian participant intended to use Australia as a springboard to New Zealand. Most of the individual participants (40%) had come into contact with Hungary through friends. The remainder of the participants identified the roots of their relationships as being former official appointees (20%), family connections (20%) and tourism connections (20%).

Participants gave a number of alternative sources of information about Hungary or New Zealand: New Zealand pastoral families who went to live in Hungary; West Pacific Consultants Ltd., University of Canterbury, Lincoln University, PGG Christchurch, former Embassy of New Zealand in Vienna, trade section of New Zealand Embassy in Vienna during the 1970s-80s, personal contacts, local (Hungarian) staff, business connections, Hungarian Ministry for Economics and Transport, the internet, Beehive Government Letters New Zealand, Commercial Consulate in Australia (discontinued by Hungary), and Pesti-side (English newspaper in Hungary). According to the individual participants, the

most useful sources of information about Hungary or New Zealand were travelling to the country (personal experiences), the Hungarian Honorary Consul in New Zealand, newspapers, on-line newspapers, expatriate New Zealanders, personal experiences, friends and students. Although 20% of individual participants had no current active engagement, all of the other respondents mentioned regular contacts with New Zealand friends, family or former colleagues. All of those without current contact expressed a desire for future contacts, client base, and networking opportunities.

These findings also support the theoretical assumptions based on international experiences (Chapter 2) concerning the difficulty of entering a foreign country without personal connections. According to the theory, international trade losses particularly occur because those without connections can be quickly distracted by the difficulties involved in obtaining reliable information.

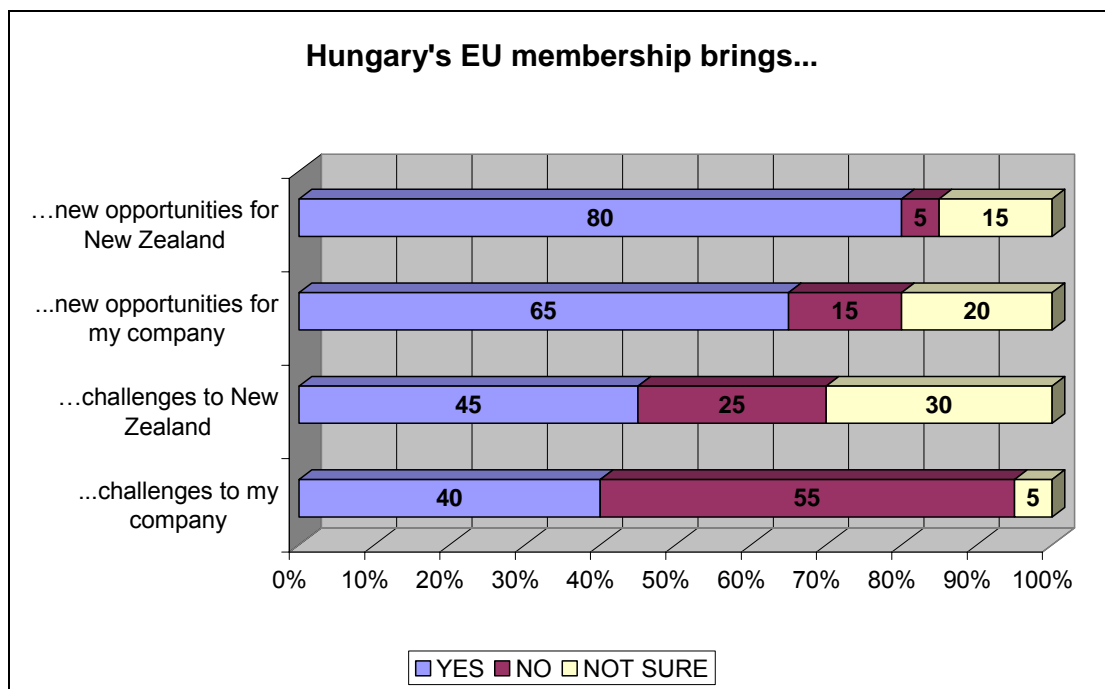
Business participants were also asked about their short and long-term goals. Short-term goals identified were: student exchanges, part-time PhD training, organising individual and group travel to New Zealand, acting as a tourism centre for New Zealand, the handling of incoming New Zealanders visiting Hungary, increasing the turnover and sales of New Zealand products in Hungary and in neighbouring countries, the introduction of new products, the expansion of existing product sales from New Zealand and other country suppliers in Hungary, to assist New Zealanders in visiting Hungary and Hungarians travelling to New Zealand, and a participation in the organisation of interstate visits by diplomats and various other delegations.

The various long term goals mentioned were: joint research projects, the adaptation of quality assurance systems of New Zealand universities, cooperation (particularly education and scientific) in environment management and engineering, increasing the number of Hungarians visiting New Zealand, contact with press and media to popularise New Zealand as destination, increase revenue, strengthen the New Zealand image in Central Europe, promote New Zealand agriculture, increase the appreciation of New Zealand products, find new products in New Zealand that are suitable for the Hungarian market and encourage the transfer of manufacturing some products to Hungary to overcome increasing freight costs, to boost tourism, to advance commercial links, and to raise cultural awareness in both countries.

9.3.3 Perceptions of New Zealand–Hungary Relations since 2004 (Section C)

In general, views about the possible impact of Hungary's EU membership on New Zealand were more optimistic than pessimistic (see Figure 9.3 and the comments of individual participants).

As can be seen in the following graph, the majority (80%) of participants saw new opportunities for New Zealand resulting from Hungary's EU membership as well as new possibilities for their own organisation (65%). Especially optimistic were Hungarian governmental and non-profit organisations (100%) and business participants (77%) who felt there were many new opportunities for New Zealand in the EU member Hungary.

Figure 9.3: Possible Impacts of Hungary's EU Membership on NZ

Several comments (quoted below) recommended New Zealand consider direct investments in Central and Eastern Europe instead of its traditional product exports, primarily to take advantage of the low costs of skilled labour, the tax allowances for new businesses, as well as the lack of tariff and trade barriers when exporting the EU single market.

Optimistic Comments:

“New opportunities in terms of food products: New Zealand food products are in small supply in Eastern Europe compared to West. Dairy products could find an ample opportunity for example if you look at the exports to the UK. A new Fonterra office opened in Russia over recent years but no such investment is planned (not only by Fonterra) in Central and Eastern Europe.”

“Lower agricultural tariffs for New Zealand.”

“EU barriers may have been easier to overcome if company already present (in Hungary), local cost base should help New Zealand for opportunities.”

“We advise and assist MNCs entering the CEE/CIS region. EU accession brings technical challenges but huge increase in Foreign Direct Investment by our clients in the region.”

“New Zealand maintains traditionally good relations with Western EU countries. As Hungary became a member of this community, the mutual chances for better cooperation have been established.”

“I would imagine that whilst every country has its own import/export laws eventually once familiar with EU regulations New Zealand companies could explore the markets of the most recent EU countries. EU has undoubtedly opened Hungary to foreign investors which is a benefit to my business.”

“With her accession to the EU the commercial conditions have considerably changed as regards commercial bonds. Hungary is now seen as a hub for other non-EU countries in the vicinity of Hungary. Hungary’s population further “extended” to 15 million considering the number of Hungarian ethnic groups of 5 million living in the neighbouring countries chiefly on the borders.”

“Hungary doesn’t compete with New Zealand in the EU – as far as I know they produce completely different commodities or similar ones but seasonally different.”

“Open market, administration of import and export is more simple, no duty, faster trade. Tariffs are lower for the New Zealand exporters and Hungarian importers.”

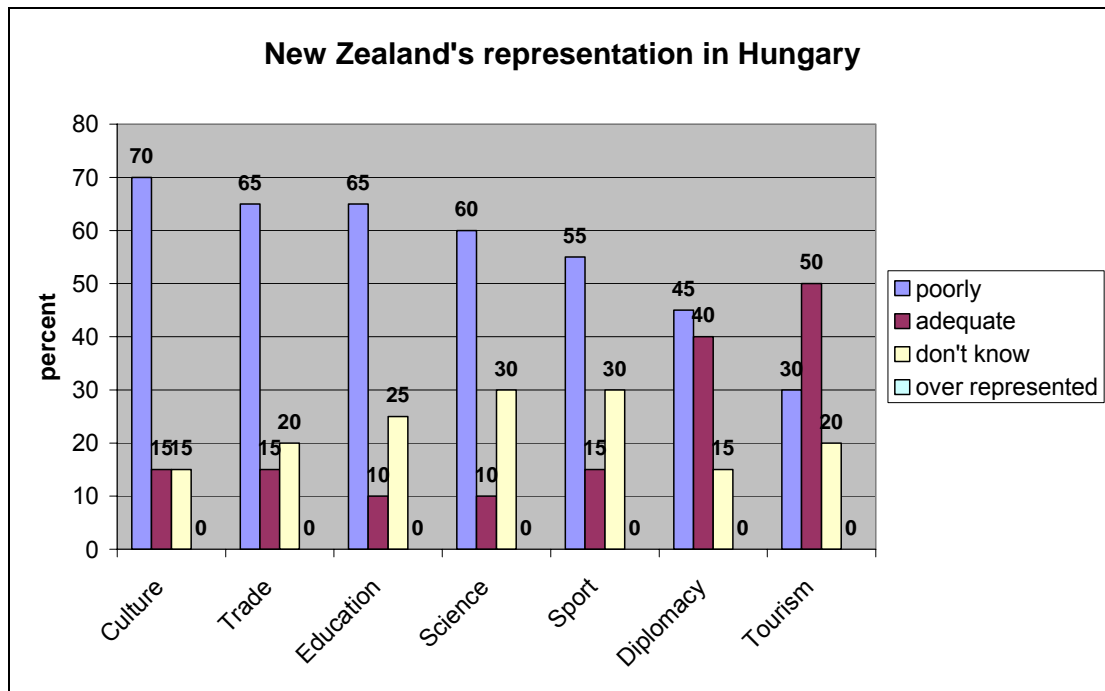
“New Zealand companies should be looking at the opportunity to manufacture in Hungary for EU markets eg. Dairy products. Hungary is still relatively low labour price market. For our company there are more opportunities to sell EU-sourced products on the Hungarian market as duties now zero.”

Comments of Concern:

“As a New Zealander it is now much more difficult to work in Hungary – but as I was there before the change my work permit just needs renewing. It is much more difficult for new workers to come here.”

“Western European countries are not foreign countries any more, trade with them has become more liberal – while duty, customs clearance of New Zealand products put back the trade.”

The level of New Zealand’s representation in different areas in Hungary was widely by participants in this survey as being far from adequate (Figure 9.4).

Figure 9.4: New Zealand's Representation in Hungary

The decisive majority – especially business and individual participants – were dissatisfied with the level of representation in all areas except ‘Tourism’. Interestingly, ‘Culture’ received the highest number of responses (70%) in the category ‘Poorly represented’ and just 15% of the participants found it adequate. Both ‘Trade’ and ‘Education’ with 65% indicate a very high level of dissatisfaction, followed by ‘Science’ with 60%.

‘Tourism’ received the lowest number of responses in the “poor representation” (30%) category and got the highest score (50%) in the “adequately represented” column, followed by ‘Diplomacy’ with a 40% satisfaction. As tourism and diplomacy are generally seen as high profile forces when representing a country abroad, the majority of participants expected more involvement and initiative in these areas.

The categories of ‘Sport’ and ‘Science’ received the highest score (30%) each in the column ‘Don’t know’, followed by ‘Education’ (25%). These areas together with ‘Culture’

and 'Trade' received also the lowest satisfactory ratings (between 10-15 %) in the "Adequately represented" column.

Looking at Figure 9.4 as a whole, it can be seen that most participants felt that New Zealand was "poorly represented" (an average of 56 %) across all sectors. None of the respondents were of the opinion that any sector was over-represented. An average of 22% was satisfied with the level of New Zealand's representation in Hungary and the remaining 22% felt that they did not have enough information about different sectors to make an evaluation.

Satisfied participants:

"Everyone in Hungary knows New Zealand as a beautiful place. That is it!"

"Awareness of New Zealand is huge in Hungary. For most it's No. 1 or 2 dream destination. New Zealand wildlife programmes on television almost every day."

"Many people have special emotions towards New Zealand though they have never been there. But they know the beautiful countryside, clean environment, blue sky, and successful agriculture. They are always picking up the news about New Zealand and spread among their friends."

"The scientific research has been internationalised to a great extent. Scientific publications (in many cases in electronic form) + scientific conferences provide good opportunity for representing a nation or an institution of higher education."

Dissatisfied participants:

"What representation?! A voluntary diplomatic Hungarian representative without necessary skills of such a position is best representation I could find. Tourist info is common enough via agencies advertisements."

"I never hear anything about New Zealand here – there is no embassy and the nearest is in Berlin. Also no vegemite on sale! (nearest shop Vienna)."

"No one knows what New Zealand does other than farm sheep."

"There seems to be very little contact on any level between the two countries."

“New Zealand filmmaker making film extolling of Hungarian culture, relying completely on funds from private New Zealand investors.”

“My experience in the last four years is that most Hungarians regard New Zealand as a nature park with a lot of sheep. Tourism is really the main drive even when it is small.”

“The New Zealand Tourism Industry should supply the agencies with information material and invest in events popularising New Zealand as destination. Perhaps joint workshops with Australia, Fiji or Tahiti would bring more profit.”

“There is very poor representation. An Honorary Consul is inadequate to develop the relationship, as are occasional visits of New Zealand Embassy staff from Berlin. There are travel companies with New Zealand tours in their product offerings + an AirNZ representative.”

Participants also regretted the low level of up-to-date information available in New Zealand about Hungary. As most of the participants had been living in Hungary for more than four years and had visited New Zealand just briefly, 20% of them had no relevant information about Hungary’s reputation in New Zealand. Table 9.4 shows the factors that were perceived to cause most difficulties when establishing and maintaining relationships between New Zealand and Hungary.

Table 9.4: Hindering Factors between New Zealand and Hungary

Hindering Factors	% of all participants
Distance	80%
Lack of market knowledge	60%
Language barriers	50%
Lack of financial investment	45%
Lack of networking	40%
Unfamiliarity with customs and law	25%

Most participants (80%) mentioned the distance between Hungary and New Zealand as being the most important barrier to further interaction. A lack of market knowledge (60%) and language barriers (50%) were the next most important factors. Unfamiliarity with customs and law seem to be perceived as having had less influence on establishing relations between New Zealand and Hungary (25%).

While networking received a relatively low score of 40%, individual participants in particular stressed its importance, 71% of whom intended to establish further contacts between New Zealand and Hungary. This result is empirically and theoretically unsurprising because, according to the assumptions of the Ethnic Networks Theory, networks are especially important in the early phases of establishing international businesses.

Comments of Participants:

“Lack of networking is the most important.”

“There is a huge imbalance of trade in favour of Hungary. There is little coming back from New Zealand. This is a crying shame as there are New Zealanders with excellent networks in the region who would love to help New Zealand businesses succeed formally or informally.”

“Lack of trust and reliability.”

“The only way that I can see for a filmmaker to make films in Hungary is to bring 80% minimum investment from abroad.”

“Why should either country bother with each other until more people are educated about the benefits of both.”

“More investment would be needed to popularise New Zealand. Due to distance, air-fares are too high compared to other long haul destinations. The New Zealand tourism authorities neglect their participation in events (such as travel fairs, workshops, etc.) aiming to foster advancements between the two countries.”

“The main problems stem from the bureaucracy and lack of available capital in Hungary.”

“We experiences in the 90s that New Zealand firms were not flexible, patient; they wanted to gain high profit immediately from first transactions.”

“Increasing freight costs are going to make more and more New Zealand products uncompetitive on the Hungarian market – except for high-value niche products, and products like software development, advertising and tourism: sales with low overheads.”

As 20% of all participants were Hungarians looking for opportunities in New Zealand, the next question was modified accordingly between the two groups:

- For New Zealanders: What resources would you require in order to benefit more from opportunities in Hungary?
- For Hungarians: What resources would you require in order to benefit more from opportunities in New Zealand?

While ‘unfamiliarity with customs and law’ was evaluated in the previous question as the being a minor obstacle between the two countries, in these next questions both groups considered the somewhat similar term ‘information about legal terms and conditions’ (75% and 50%) as being the most important factor to promote the opportunities in each country. This contradiction might at first sight be explained by the fact that New Zealand is traditionally familiar with EU standards that now also form the legal framework in Hungary. In this sense, unfamiliarity with customs and law in Hungary would not be viewed as a major obstacle. On the other hand, to become more successful in both countries, information on legal terms and conditions (such as special Hungarian or New Zealand trade or business incentives, work visa issues, etc.) were considered by respondents to be important factors. In addition, half of the participants originally from New Zealand considered networking as an important business element.

Comments of participants:

“More information material on business possibilities. Hungary might be an adequate springboard to set up a representation in the region. Hungary could be a connecting point to non-EU countries of the area, having little or no relationship with New Zealand.”

“Information material.”

“Face time with some decision makers!”

“Affordable prices.”

“Opportunity to set up a business consultancy.”

“Actually, for someone entering the market here, any info is useful.”

“Information on potential trade incentives to encourage business.”

9.3.4 Summary of Survey Results

The participants involved in the survey were very open and supportive. 15 out of the 21 participants who returned the questionnaire in time also agreed to a follow-up interview. The data received during these interviews (duration between 1-2.5 hours) are used in the relevant chapters of the thesis as background information and are quoted as such. By comparing the main themes from the interviews with the results of the questionnaires the four most important issues mentioned were:

1. Under-utilised business opportunities in Hungary;
2. Low level and one-sided publicity of New Zealand in Hungary and in Central-Eastern Europe (mainly New Zealand as tourist destination);
3. Low level of education in geography, history and languages in primary and secondary schools in New Zealand;
4. Low level of public information (media) in New Zealand about the EU, especially about the new EU Member States.

To expand on these themes, firstly New Zealanders living in Hungary had established and maintained very good connections with key decision makers in their branches and saw many opportunities, which, according to them, were not perceived as such by authorities back in New Zealand. All of these participants stressed the desire and the rationale for more engagement by the New Zealand Government.

“There are 20-30 long-term New Zealanders here [in Hungary] who often meet with New Zealand trade representatives coming through or anyone from New Zealand who is interested in Hungary and informally share information. This is greatly under-utilised for New Zealand region-wide”.

Secondly, the level of New Zealand’s representation in different areas in Hungary was evaluated largely as unsatisfactory. Thirdly, the low level of education in the public primary and high schools in New Zealand, especially in the areas of geography, European history, culture, and languages was also frequently mentioned. Participants with families considered it as one of the most important reasons why they do not intend to return to New Zealand until their children are in school age. According to the research participants it is a decisive factor that has long-term disadvantages for New Zealand (e.g. for the official migration policy of New Zealand that would like to attract New Zealanders with overseas experiences and business connections back to New Zealand.) And fourthly, participants also stressed the importance of raising the level of public information about EU related issues in New Zealand.

9.4 Summary: Comparison of Significant Survey Results

The aim of this chapter is to compare and interpret the most dominant findings from the surveys conducted in New Zealand and in Hungary in 2005.

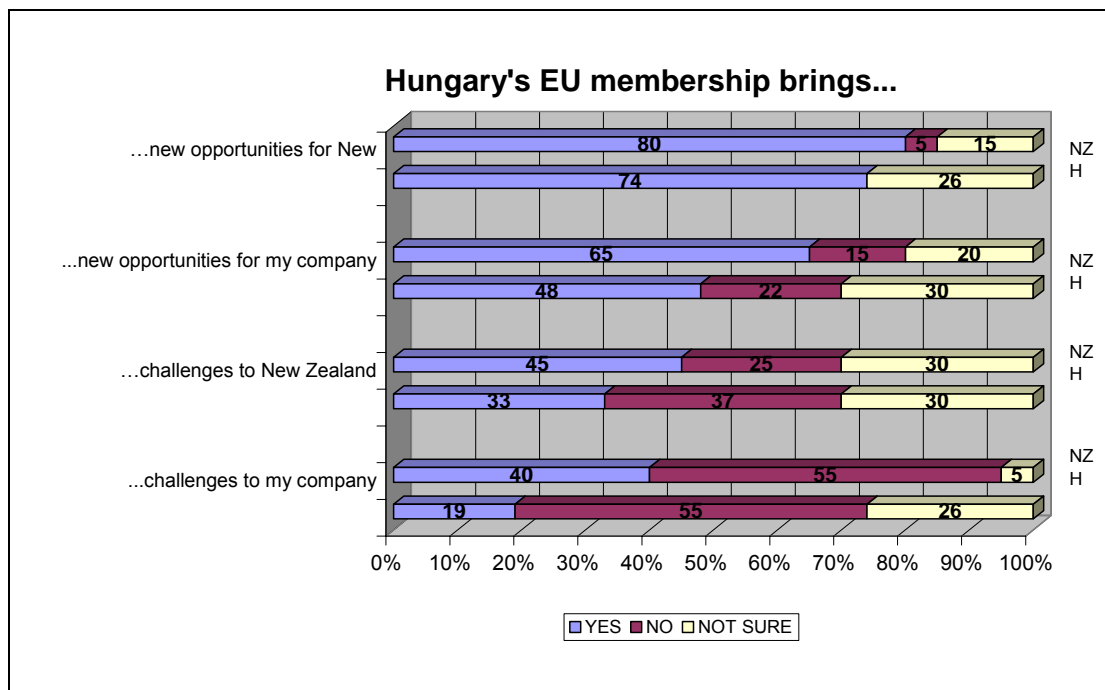
#1 Languages

Despite English being the main language of international affairs, New Zealanders both from New Zealand and Hungary mentioned language difficulties as being a fundamentally important obstacle when entering a foreign market. Although English is widely spoken in Hungary by academics, politicians and entrepreneurs, German is at least as equally widespread in Hungary and Central Europe. This is also supported by the findings of Hungarian survey: 100% of the governmental and academic participants from Hungary spoke all three languages (Hungarian, English, and German), while according to the New Zealand survey, just 50% of the academic and government participants spoke a second language.⁴⁶ New Zealand business and individual participants in both surveys stressed the necessity of multilingual education from school age, and criticised the lack of historical and socio-cultural subjects on Europe in New Zealand public education.

#2 Advantages/Disadvantages for New Zealand from Hungary's EU-Membership

Figure 9.5 shows the aggregate opinion of survey participants on whether Hungary's EU membership would bring more opportunities or challenges for New Zealand in general, and for their workplace in particular. Generally, it can be seen that participants in both countries were more optimistic than pessimistic. There were marginally more participants from Hungary with the opinion that both opportunities and challenges for New Zealand are increasing. The 'not sure' rate was also smaller in Hungary than it was in the New Zealand survey.

⁴⁶ It should not be forgotten that the high level language skills of the Hungarian academic, business and governmental participants is only characteristic for a fragment of the Hungarian society. According to a 2005 Eurobarometer survey just 29% of all Hungarians indicated they spoke a foreign language, which induced a nation wide debate about the inadequate techniques of foreign language teaching. (The first foreign language is compulsory from year 5 at the latest, the second foreign language is compulsory from high school age.)

Figure 9.5: Challenges and Opportunities for New Zealand

According to the comments of participants, the traditional agro-technology market is quite saturated in Hungary with strong Dutch, French and US competitors. Companies from these countries also operate production sites in Central and Eastern Europe, thus securing quick delivery and lower transport costs. Participants from Hungary stressed the priority of local production sites instead of direct transport from New Zealand.

In participants' written comments and during the interviews, the education sector emerged frequently as a potential market for New Zealand. At the same time, however, concerns were also expressed at the high international course fees for non-resident students. Flight and living costs, without the right to work and without any scholarships, mean, that studying in New Zealand is not easy to finance for Hungarian students. The lack of a Working Holiday Scheme between New Zealand and Hungary is therefore one of the main obstacles for New Zealand in the education market.

Participants from Hungary also encouraged New Zealand to think in terms of geopolitical zones when looking for new markets, instead of looking at individual countries. The existing and new EU Member States in Central and Eastern Europe, as well as Russia, were all identified as potential markets for New Zealand.

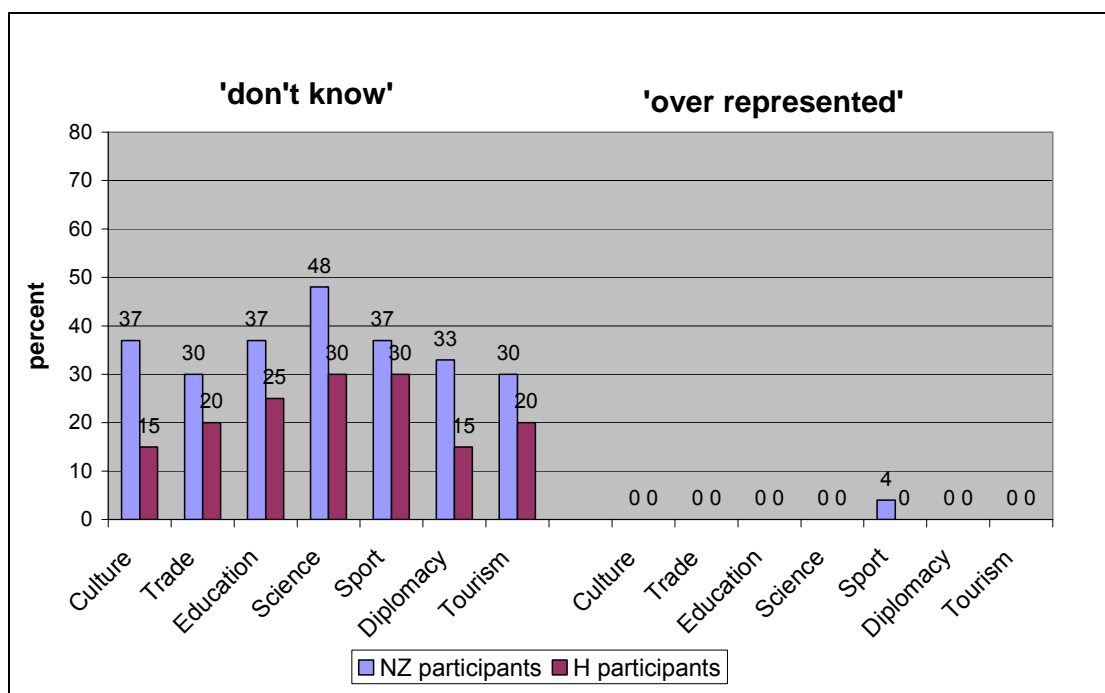
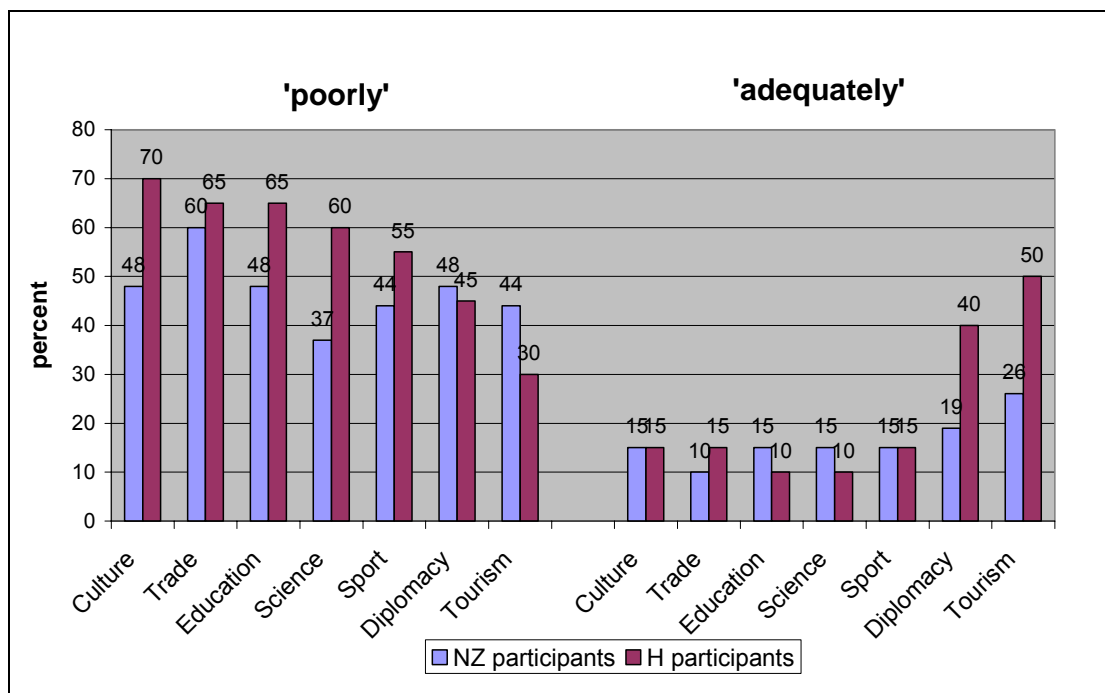
#3 New Zealand's Representation in Hungary

As can be seen in Figure 9.6, most participants from New Zealand and Hungary felt that in most areas New Zealand was poorly represented in Hungary. Diplomacy and tourism were perceived as being the most adequately represented, although even the highest score for tourism was just 50%. According to the project participants, the biggest deficits are in the areas of culture, science, and trade. Participants back in New Zealand had less information about New Zealand's image in Hungary, even though they maintain connections between the two countries.

An analysis of the interviews with individuals and business participants in both countries, indicates an expectation of more involvement in Central and Eastern Europe on the part of different New Zealand governmental branches like the Ministry of Foreign Affairs and Trade, the New Zealand Embassy in Berlin, the New Zealand Tourism Board and New Zealand Trade and Enterprise. On the other hand, the interviews and comments from governmental participants emphasised the need for global macro-economic considerations when deciding about the expenditure of financial resources. As such, Central and Eastern Europe was perceived as less attractive and marketable than the geographically closer Asia for these respondents. The opening of the New Zealand Embassy in Poland was arguably one important step towards increasing New Zealand's representation on that side of the

world, but government respondents indicated that further steps in that direction can not be expected in the near future.

Figure 9.6: New Zealand's Representation in Hungary

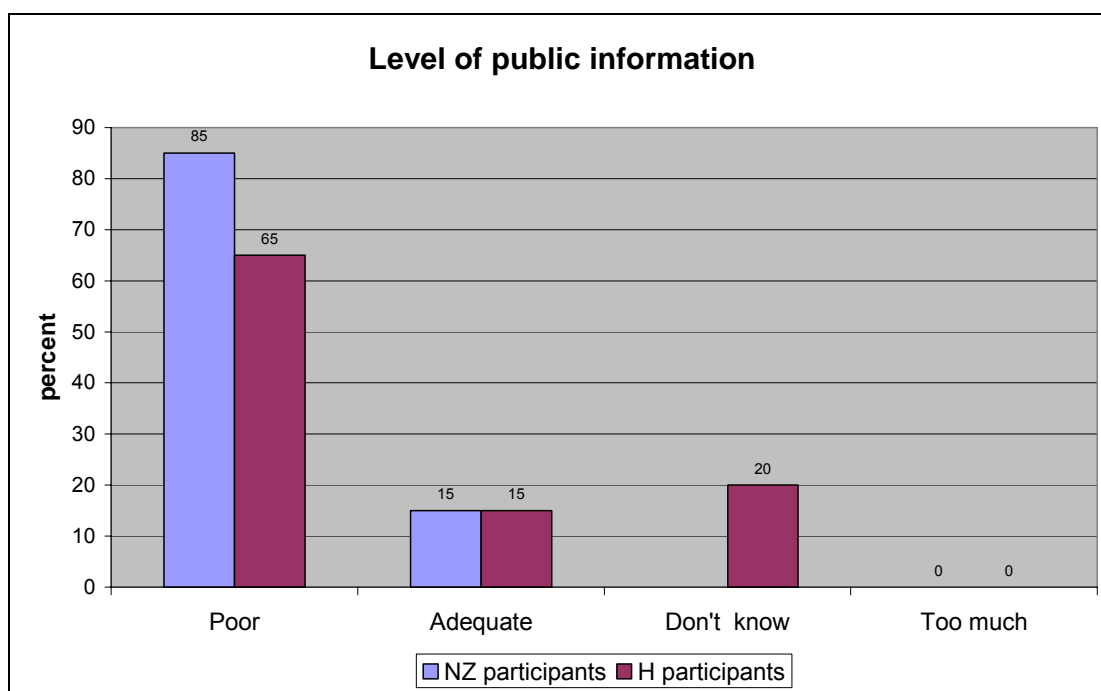


#4 Public Information in New Zealand about Hungary

Participants from both countries were of the opinion that there is virtually no public information available in New Zealand about Hungary or Central and Eastern Europe in general (Figure 9.7). As cited previously, one New Zealand survey participant described it as such:

“An average New Zealander put Hungary into Eastern Europe instead of Central Europe... There is a lack of up-to-date information on Hungary: The way Hungary’s historical background was thought in New Zealand and what New Zealand people know about Hungary deters many from Hungary (main information: Attila the Hun, Hungary as Nazi country during the World Wars, and Hungary as a poor country under Soviet Communism oppression.) ”

Figure 9.7: Level of Public Information in New Zealand about Hungary



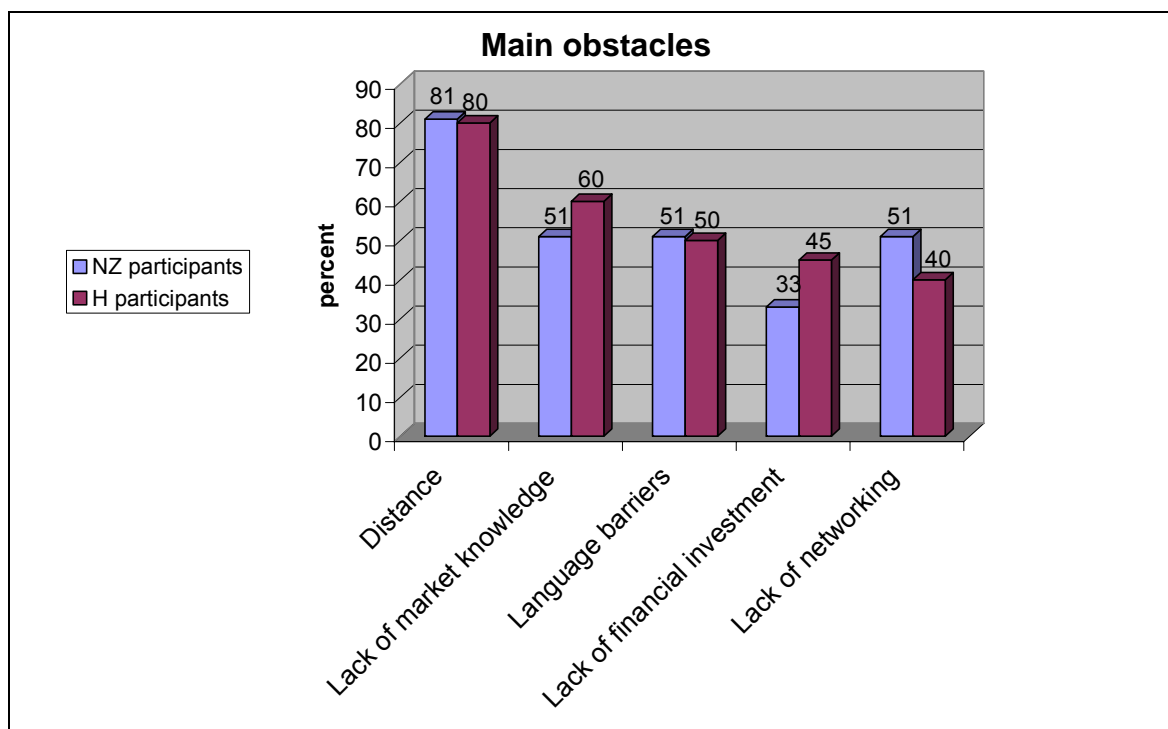
Other participants identified Hungary as being a music nation (Bartók, Kodály). Some remembered Hungary from their childhood when playing with the logic-toy “Rubik-cube” or had heard that Conductive Education in New Zealand relies on the theory and methodology developed by Hungarian Dr. A. Pető. New Zealanders living in Hungary

were of the opinion that Hungary should be marketed together with her neighbouring countries as cultural-historical tourist destination, which includes rich architecture and folklore, as well as being a doorway to Eastern and South Eastern Europe for trade-related issues.

#5 Main Obstacles to a Greater New Zealand Presence in Hungary

In both countries, distance was identified as being the largest obstacle to further New Zealand engagement in Hungary (Figure 9.8). This result is interesting as other traditional trading partners of New Zealand are similarly distant as Hungary (Germany and the UK, for example). On the other hand, considering just the Hungarian market, it might be true that the transport costs and delivery time are much higher than others within the EU, such as Spain and Italy for milk, fruit, meat; or France and Holland for agro-technology.

Figure 9.8: Main Obstacles to More New Zealand Presence in Hungary



For participants in the New Zealand survey, more important issues were a lack of market knowledge, language barriers and lack of networking. Not surprisingly, these three areas are - according to the Theory of Ethnic Networks - the core territories in which the contribution of immigrants to international trade volume can be the most significant.

“There is a potential for New Zealand and Hungary too: learn and trade with each other. New Zealand should investigate a media education programme about Hungary and other new EU countries, then establish a network of professionals living in Hungary who can assist New Zealand companies in a soft landing into Hungary.”

Survey participants from both countries were asked to fill in a follow-up questionnaire in June/July 2007 to evaluate developments since the surveys conducted in 2005. The results of these follow-up surveys are discussed in the following chapter.

Chapter 10

FOLLOW-UP SURVEY 2007

10.1 Introduction

This chapter contextualises the more recent 2007 data received from follow-up surveys in New Zealand and in Hungary with the results of the 2005 survey in order to identify any developments in the New Zealand-Hungary relationship during the period. At the time of the 2005 survey, many participants both in New Zealand and in Hungary suggested that completing the questionnaire via e-mail would be more convenient and faster for them rather than using a printed version that required a postal return. In an attempt at securing a higher response rate, this request was accommodated in the 2007 follow-up survey in both countries. As the same participants took part in the 2005 and the 2007 surveys, it was not necessary to include Sections A and B of the second questionnaire (the sections concerning individual and company background information). Thus the follow-up survey included only Section C which investigated the effects of Hungary's EU membership both for Hungarian and New Zealand participants. As was the case in the 2005 survey, the individual comments from the participants provided a rich dataset which has considerably enhanced the basic statistical data and which has provided further unique insights. The final section of Chapter 10 compares and discusses most significant survey results derived from these follow-up surveys in New Zealand and in Hungary.

10.2 Follow-up Survey Results – New Zealand (May-July 2007)

Requests for participation were sent to prospective participants via e-mail with an attached questionnaire. Three out of 27 participants from 2005 had changed their workplace and home address and could not be contacted. A further two participants declined to participate

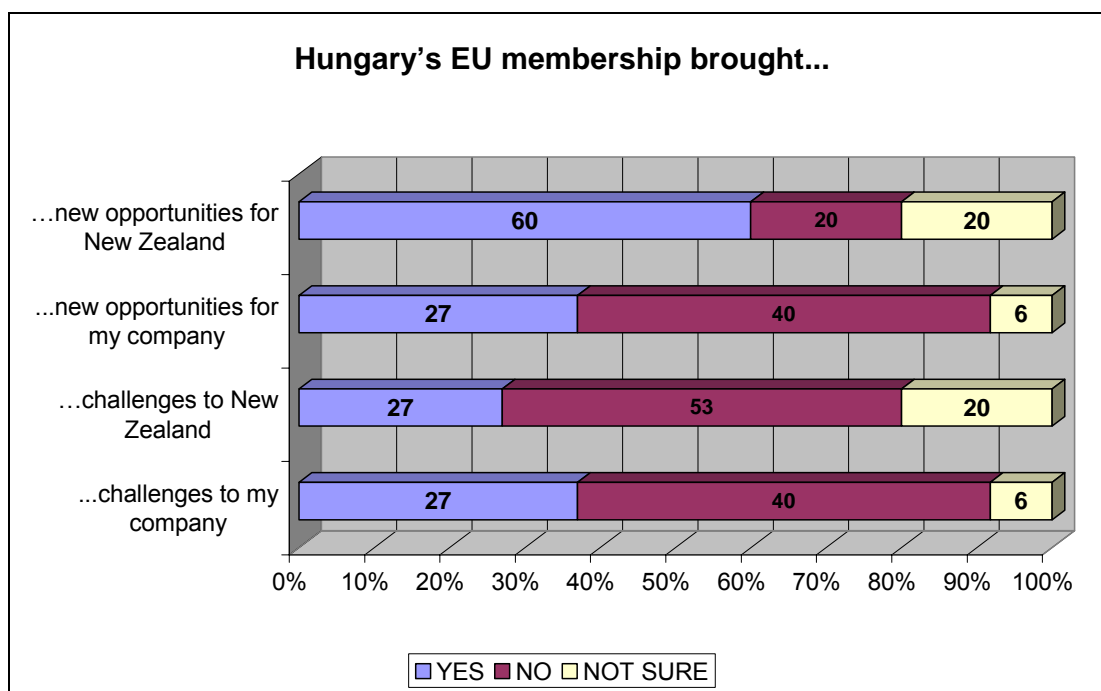
in the survey on the grounds that they had not had any contacts with Hungary between 2005-7 and thus they felt that they had no additional contribution to make. Eight questionnaires were returned within the first two weeks. Reminders were sent out after three weeks. Seven participants neither refused participation nor returned the questionnaire. Consequently, the following analysis is based on the 15 returned questionnaires as at 10th August 2007; a somewhat lower response rate of 55%.

As stated under the section Methodology because of the different sample sizes between 2005 and 2007, the data displayed in the following charts and tables should be treated as indicative trends rather than statistically precise comparisons. On the other hand, the assumption is that those most interested in the bilateral relationships between New Zealand and Hungary decided to take part in the follow-up survey and this group surely possesses the most reliable information available for the survey.

10.2.1 Perceptions on New Zealand–Hungary Relations since 2005 (Section C)

The first question of the questionnaire asked participants to express their opinions on the impact on New Zealand and on their own organisation of Hungary's EU membership during the previous two years (Figure 10.1).

While most participants (60%) were of the opinion that Hungary's EU membership in general brought more opportunities for New Zealand than risks, when they considered their own companies or organisations, most respondents perceived that there had been neither new opportunities nor challenges over the last two years (40% each).

Figure 10.1: Impacts of Hungary's EU Membership

Additional verbal comments, however, revealed that concerns and even disappointment about the relationship had become greater since the 2005 survey:

Optimistic Comments:

"The new generation is more open-minded."

"Nothing has really changed, we still purchase from Hungary and sell in New Zealand, business still goes on."

"The Consulate has an increased workload since Hungary joined the EU with those possibly eligible for Hungarian (i.e. "EU") passport deciding to look into it."

Comments of Concern:

"Contact between the two countries' trade never been strong and the EU membership has not changed that. New Zealand is too far from Europe and from Hungary, the transport expenses are uneconomical. The strongest point could be the tourism."

"Still waiting for the 'Working Holiday' agreement to be signed by Hungary."

"Bureaucracy."

“Our work has become more difficult. Because of the new system (EU) the Hungarian company has to ‘fight’ for survival.”

“Despite my expectations the EU membership did not cause any positive change. Hungarians are not more open minded or richer than before.”

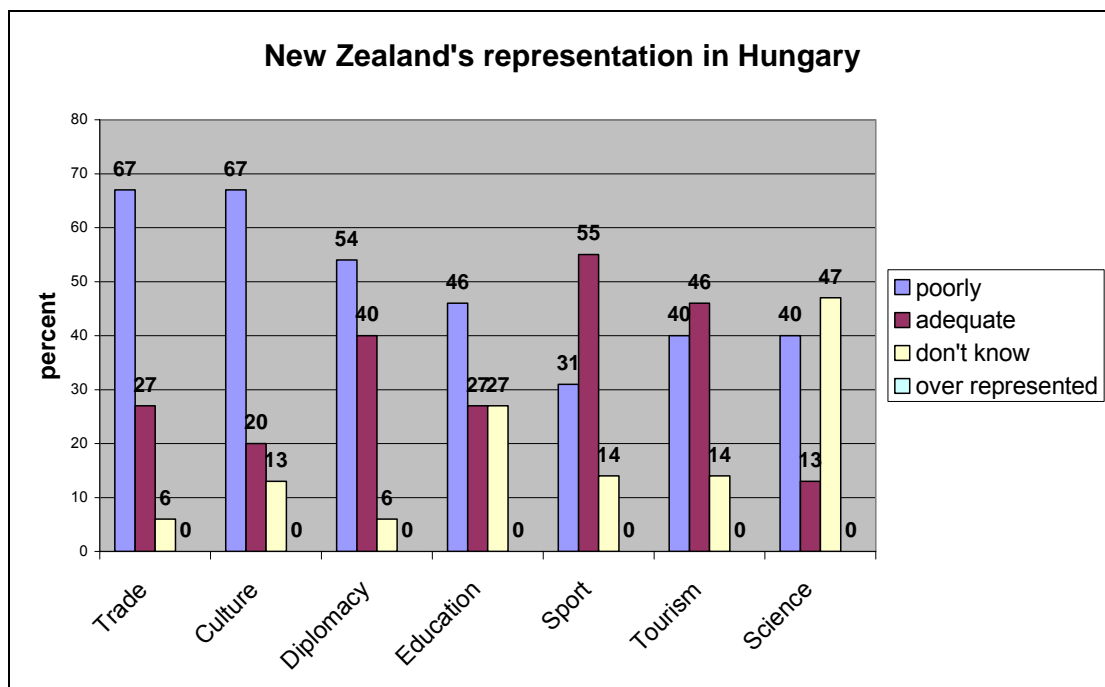
“Potentially EU membership could have created new opportunities and challenges both for New Zealand and the Consulate, but for reasons that become apparent in the questionnaire questions below, little advantage can be/has been taken of these opportunities.”

As these comments reflect, the new market conditions in Hungary brought more difficulties for respondents than they had expected. New regulations (particularly regarding food hygiene and quality) added extra costs to manufacturing for export, and additional marketing campaigns were needed to counterbalance the increased competition from other new Member States. Opening up the Hungarian market to suppliers from other EU members modified not just the composition of the supplier side but also the expectations of the demand (see more under Chapter 11 on case studies later). The recent economic restrictions (including rising tax and the consumer price index) in Hungary also contributed to a drop in consumption and generated more price sensitive changes in the buying habits of clients. Similarly to the 2005 survey findings, the lack of a Working Holiday Scheme agreement between New Zealand and Hungary appeared to be especially problematic for many respondents (see also survey results from Hungary and case studies).

The level of satisfaction with New Zealand’s representation in Hungary (Figure 10.2) was again explored. As can be seen in Figure 10.2, ‘Trade’ and ‘Culture’ were seen to be the most under-represented, receiving the highest ranking (67%) in the column ‘Poorly represented’ (7% higher for ‘Trade’ and 19% higher for ‘Culture’ than the results from 2005). On the other hand, the number of participants who thought the representation of New Zealand in Hungary was adequate grew from 10% in 2005 to 27% for ‘Trade’, and

was also slightly higher (+5%) for ‘Culture’ in 2007. The reason behind the somewhat growing number of satisfied participants may also lie in the fact that more participants contextualised their expectation in relation to objective figures like market size, transport costs and governmental budgetary restrictions. In line with this assumption, although most of the comments raised were rather dissatisfied, they did identify New Zealand’s financial limitations as being the most common obstacle for stronger representation.

Figure 10.2: New Zealand’s Representation in Hungary



Looking at the graph further, it can be seen that an average of only 18% of participants chose the ‘Don’t know’ response across all sectors, a figure 50% less than the result from 2005. This may indicate a rather positive development in the level of public information, however, as the number of research participants was 45% less than in 2005, it could also be assumed that only those most interested and informed made use of the questionnaires in 2007.

In terms of New Zealand's diplomatic visibility, the number of satisfied participants grew from 19% in 2005 to 40% in the 2007 survey, while the number of those who were dissatisfied grew by only 6%. The important 'Tourism' sector was seen as being adequately represented by 46% of the participants, 20% more than two years earlier, although the 40% level in the 'Poorly represented' column was still high. As the comments in the survey conducted in Hungary also revealed, New Zealand's natural physical landscape is "quite often" screened on television channels in Hungary, although these reports seldom provide any additional information about people, culture and everyday life in New Zealand.

'Sport' was selected as the most adequately represented area by 55% of the participants (40% higher than in 2005). Participants felt least informed about 'Science' (47%) with a similar percentage in 2005. This was also the sector that received the lowest level of satisfaction at 13%, a figure slightly less than in the previous survey.

Finally, in terms of 'Education', there was a slight increase in the number of respondents who thought that New Zealand's educational industry was well-marketed in Hungary (27%), but the number of those who considered the representation to be poor was even higher at 46%. Whether we can expect these figures to be significantly better in the near future is questionable. Under the case studies in Chapter 11, the experiences of two New Zealand companies trying to attract Hungarian students to study in New Zealand provide valuable insight into this issue.

Satisfied participants:

Significantly, no comments were recorded under this option.

Dissatisfied participants:

“...while the frequency of visits/contacts by New Zealand’s non-representative Embassy is sub-optimal it is as much as the Embassy’s – and New Zealand’s – limited resources allow. Regrettably there are many countries where New Zealand does not have resident diplomatic representation because of resource limitations and it would be difficult to argue that an Embassy should be opened in Budapest at this time, even though (on a personal basis) I would like to see it.”

“In the (Hungarian) education students learn about New Zealand geography and economy and the opportunity to get information about New Zealand is easy because many books, video tapes are available in Hungarian. But one could not hear much about New Zealand in everyday life and in the media either in the past or the present.”

“Sill very little information is available in Hungary about New Zealand and vice versa.”

“About New Zealand nature catastrophes such as earthquake etc. you can here much more in Hungary than about culture and tourism.”

“Indirect representation without on-the-spot presence is insufficient to take advantage of mutual New Zealand-Hungary opportunity.”

“People know only a few things about New Zealand however far more (than) the Kiwis know about Hungary.”

“In my opinion there would be enormous potential to develop New Zealand’s image in Hungary. Apart from documentaries made by Hungarian film crews now and then, which are very popular when screened on Hungarian television, New Zealand has negligible presence there.”

“As a New Zealand business you will have difficulties to access information from a New Zealand representation in Hungary. Public information about New Zealand in Hungary is quite confined on the natural assets of New Zealand.”

The level of public information available on Hungary in New Zealand was evaluated by all participants as poor, against the rating of two years ago when 15% found it adequate. Just one participant added a comment that the information about Hungary is “...not much, but Hungary is not a major interest to New Zealand.”

A further question was posed to participants to elicit information on what factors they perceived to most hinder the establishment or maintenance of relations between New

Zealand and Hungary (Table 10.1). Similarly to the results from 2005, most participants in 2007 (80%) made reference to the physical distance between Hungary and New Zealand as being the most important barrier to furthering the relationship. According to one respondent's explanation, however, the physical distance in itself is less of a problem than are the language barriers (60%), a lack of market knowledge (60%), unfamiliarity with customs and law (53%) which contribute to the perception of large distance between the two countries – all of which can be arguably also be attributed to an overall lack of networking. A lack of investment (27%) was seen to have less of an influence on establishing relations with Hungary, a finding similar to the responses in 2005.

Table 10.1: Hindering Factors between New Zealand and Hungary

Hindering Factors	% of all participants
Distance	80%
Language barriers	60%
Lack of market knowledge	60%
Lack of networking	53%
Unfamiliarity with customs and law	53%
Lack of financial investment	27%

The comments from participants emphasise the special importance of people-to-people relations – in terms of both closer diplomatic ties as well as building trust when approaching potential business partners. As espoused by the Theory of Ethnic Networks on overcoming trade barriers, immigrants can be excellent sources of such information with their connections to their home countries.

Comments of Participants:

“Lack of support networks, e.g. trade contacts.”

“Lack of response/delays in response to enquiries (e.g. trade).”

“Lack of follow-up to preliminary meetings (mainly from the Hungarian end).”

“Overlooking of New Zealand or of Hungary (works both way), because the other country is seen as ‘too small to make a difference’.”

“Lack of direct representation.”

“Lack of trust (it’s crucial in our business). Most of our business from Hungary is through personal contacts.”

“If the three problems (language barriers, unfamiliarity with customs and law, lack of market knowledge) did not exist I believe greater effort and investment would follow. Distance is not barrier (c.f. UK and Germany) but the three issues marked above exaggerate the perception of distance. The other major impediment is the scale of most New Zealand businesses which generally results in their new market investigations and efforts being focussed in the Asia/Pacific region.”

“There is a lack of understanding that as Hungary is now a member of the EU, tariffs (outside agriculture) are generally low and trading regulations relatively transparent. A wider understanding of that would also benefit Hungary. I would like to see Hungary make a greater information effort in New Zealand.”

A question was posed to participants, asking what resources they felt were needed in order for New Zealand to benefit more from the opportunities available in Hungary. Most respondents (67%) stated that they expected more information on market developments in Hungary and in Central and Eastern Europe to be available. 27% of respondents also wanted more information about the legal terms and conditions in Hungary. Similarly to the comments given in the previous question, participants wanted to see more frequent meetings between New Zealand and Hungarian ministerial counterparts, a business data base (‘Who is Who’) and other means of enhancing networking. It seems that most respondents felt that a “huge official campaign to advertise New Zealand” was the way of improving New Zealand’s current invisibility in Hungary.

Comments of participants on resources needed to benefit more from opportunities in

Hungary:

“A more frequent discussion with/lobbying of Hungarian counterparts and officials both by New Zealand Government and by my organisation would be valuable in increasing mutual understanding regarding the production and trade of livestock products. The results may not be great advantages in actual sales to Hungary. But at the very least it would be useful in ensuring a sympathetic understanding of the New Zealand industry’s situation and objectives when issues relating to our interests arose within EU context.”

“A system/chart appropriate for a particular line of business to show who is responsible for what and when. It’s painfully slow to do business with Hungary when you don’t exactly know who to contact and who is responsible for making a final decision.”

“Political stability in Hungary is urgently required!”

“A decent English business database.”

“Financial support or a huge official campaign to advertise New Zealand in Hungary.”

“Information (e.g., a database) about key contacts interested in bilateral relations, trading opportunities. Direct avenues of communication. Reliable up-date. Provision of information (e.g. student exchange schemes, etc.) – i.e. being informed about them as a matter of course, rather than discovering by accident or seeking out...”

“Access to appropriate networks, trade associations, etc.”

10.2.2 Summary of New Zealand Survey Results

In summing up the survey results from New Zealand it can be concluded that those sectors which seem to be most important for New Zealand in dealing with the EU are the least represented in Hungary, especially trade, education, culture and science. The importance of development in these areas is also declared in the chapters of the 2007 EU-New Zealand Joint Declaration. Although it is possible that New Zealand is well or better marketed in the old EU Member States (although no relevant data could be found to confirm this), the lack of visibility is likely to be similar in the other new Member States. The main suggestions for rectifying this problem and to thus take greater advantage of the opportunities in Hungary and its immediate region were the creation of a business database, more campaigning and lobbying, and greater networking. Participants were more

satisfied with the diplomatic representation of New Zealand in Hungary, although the desire for more coordinated diplomatic and governmentally-driven campaigns in the region remained strong.

In the following section, the results from the 2007 follow-up survey conducted in Hungary will be presented. While the two surveys conducted in New Zealand and Hungary in 2005 complemented each other, it is interesting to examine whether this was again the case in 2007.

10.3 Survey Results - Hungary (June-July 2007)

Once again requests for participation were sent via e-mail with the questionnaire attached. Four out of 20 participants declined to take part in the survey on the grounds that they had left Hungary during the previous two years and felt that they had no up-to-date information to contribute. Two participants neither refused participation nor sent back their questionnaires. Eleven questionnaires came back within the first two weeks. Reminders were sent out after three weeks. Thus, the following analysis is based on the 14 returned questionnaires as at 10th August 2007, which equates to a response rate of 70% (and 15% higher than the 2007 response rate in New Zealand).

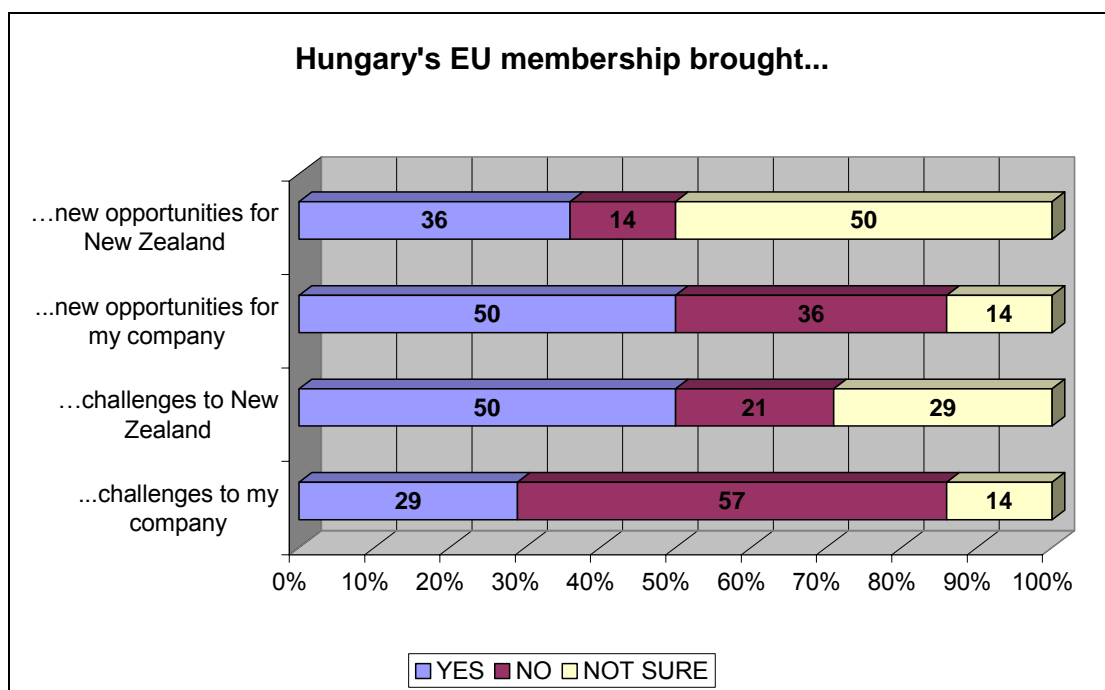
10.3.1 Perceptions of New Zealand and Hungary Relations since 2005

The responses to the question about the possible impact of Hungary's EU membership on New Zealand were less positive in 2007 than they had been in 2005 (see Figure 10.3 and comments of participants). While challenges for New Zealand and for individual companies were similarly evaluated as they had been in 2005, there was a strong decline in the positive responses concerning the opportunities for New Zealand (a drop from 80% to

36%). In relation to the participants' organisations/businesses, just 50% perceived new opportunities had arisen during the previous two years; 15% less than the number of those who predicted the possibility of new opportunities in 2005.

Recent economic restrictions imposed by the Hungarian government to finance the budget deficit might be partially responsible for the limited market successes of foreign countries in Hungary since the 2004 enlargement. Hungarian consumers not only spent less in 2007, but also were faced with a larger number of suppliers to choose from than prior to 2004. Increased market competition with declining tendencies in some sectors (e.g. livestock, see case studies on HUNZAG Kft and Bentley Instruments Kft in Chapter 11.) also contributed to the sinking sales figures of New Zealand companies in Hungary.

Figure 10.3: Possible Impacts of Hungary's EU Membership on NZ



Contrastingly, some participants' comments concerning Hungary and the region were rather optimistic, especially those who worked in large multinational companies.

Optimistic Comments:

"As we are a Big-4 advisory firm, EU accession brought huge opportunities for us as well as major opportunities and challenges for our clients. Almost all of our MNC clients have now set up operations in CEE and CIS (Russia)....Although turnover does not always mean high profit as margins in the region are still low, MNC's recognise they cannot compete globally unless they are here."

"In the past 3 years we have seen our clients set up over 60 shared service centres in Hungary. Clients outsourced varying activities to these centres in Hungary. For example: Morgan Stanley – risk modelling, research and analysis; GE – back office finance; Diageo – European financial reporting and back office."

"The activity and wealth generated in the region has been phenomenal and does not seem to be slowing. Apart from in Hungary where successive governments stole everything."

"Regards New Zealand companies, we have seen two of New Zealand's biggest put Hungary in a beauty parade along with Poland, Bulgaria, Romani, Slovakia etc. for manufacturing facilities. Look like a Fletcher subsidiary will soon have some operations in Hungary."

"New opportunities with less restriction."

"In my opinion Hungary's membership does not affect the interuniversity co-operations (with New Zealand universities)."

"New: some of our New Zealand manufacturers have stores or companies in the EU and delivery or purchase of the goods are not any more from New Zealand directly but from these stores. The shorter delivery time is a positive factor in the sales and this solution is also more cost effective. Regarding the administration of trade no difference from which part of Europe New Zealand is selling to or buying from."

"For our company the real new opportunities have been opened with the joining of Romania and Bulgaria from 2007. We do our best to utilise the advantages of a much bigger market."

"Hungary has become less protected by joining the EU thereby becoming more open to New Zealand exports."

Comments of Concern:

"Additional barriers to trade and visa (residency and work permit) discrimination increased."

“We have been losing huge numbers of staff from Hungary and the region to the Big-4 firms in New Zealand who poached them to assist in IFRS (International Financial Reporting Standards) set up.”

“Looking at the experiences of the last two years, we think that the fact Hungary joined the EU means a harder and more competitive market environment. We have to face competitors who have not been on the Hungarian market before and arrived only after accession.”

“With the membership the trade with Western Europe became easy, New Zealand being outside has difficulties. One of our business fields, based on roofing system importation from New Zealand suffered a little after 1st May 2004, but now the sales figures increase again.”

“Joining the EU did not generate any new developments in sectors I know of.”

“EU is a trading block and it seems is designed to encourage free trade within the EU. This makes it potentially harder for a country such as New Zealand to enter EU markets. On the other hand the EU once integrated, offers exporters a huge market and possibly economies of scale.”

“With the expansion of the EU, pertaining to Hungary, I expected to discover more trade interest between the two countries, between New Zealand and the new EU Member States. However, trade between New Zealand and Hungary still remains rather modest, as before (although I understand Hungary exports more to New Zealand in \$ terms than vice versa). New opportunities were opened but they don’t seem to have been exploited, surprisingly. I’m not an economist but I felt the new, expanded market might have been exploited.”

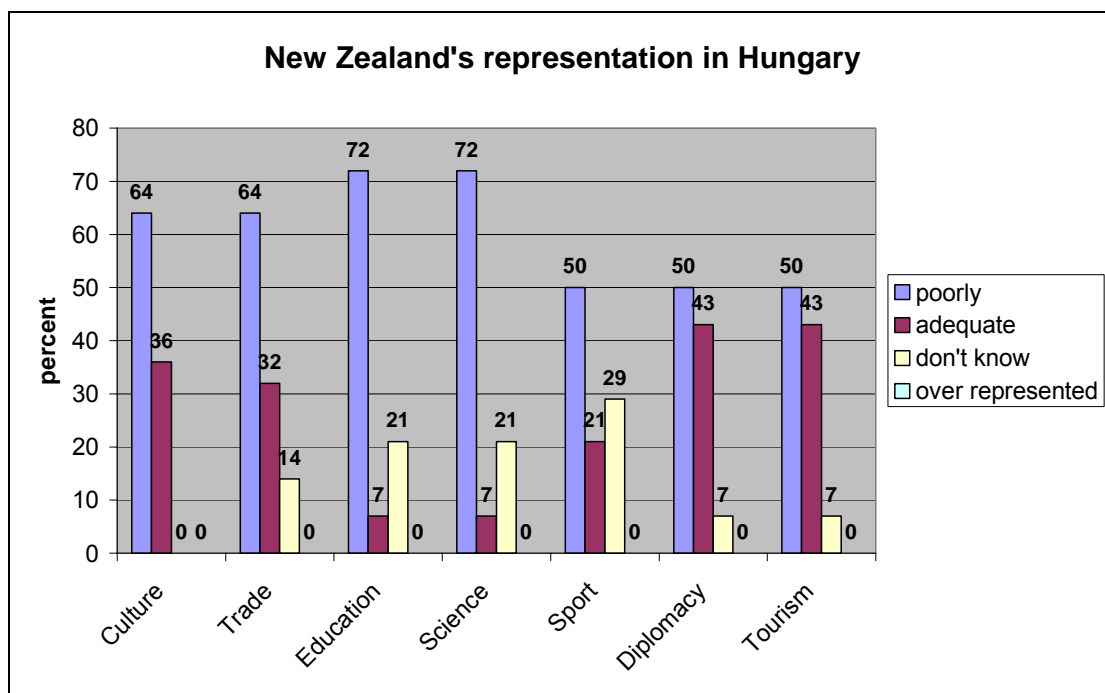
“Membership opened the Hungarian market to other EU suppliers at 0 duty rates, making them more competitive on the market than products out of New Zealand. It also meant that Hungary now comes under import quota totals for the EU for butter, cheese, and sheep meat. Our own company found a lot more interest from EU based suppliers in coming into the Hungarian market and finding distributors. We now have more EU based suppliers as a result.”

“Hungary ‘exports’ similar products to the EU like New Zealand.”

Compared with the majority of participants in 2005 who were optimistic (80%), by 2007 only 36% saw new opportunities for New Zealand resulting from Hungary’s EU membership. Furthermore, between 2005 and 2007, there was also a decrease in the perception of new opportunities for businesses and organisations.

In the 2007 survey the level of New Zealand's representation in different areas in Hungary was perceived to be rather poor (Figure 10.4). Similarly to the findings in New Zealand, the areas of science and education followed by trade and culture were evaluated as the most poorly represented.

Figure 10.4: New Zealand's Representation in Hungary



As in 2005, in 2007 a clear majority of participants were dissatisfied with the level of representation in all areas. Looking at Figure 10.4 as a whole, it can be seen that most participants selected “poorly represented” (an average of 60% - 4% higher than in 2005) across all sectors. None of the respondents were of the opinion that any sector was over-represented. The most neglected areas were perceived to be ‘Science’ and ‘Education’: 72% of participants thought that these areas were poorly represented and just 7% found them adequate. As some universities in both countries have long established connections with each other – as was seen in the results of the macro-level analysis in Chapter 8 –,

giving joint research projects more publicity and fostering student exchanges might be a good way of increasing the awareness to New Zealand in Hungary.

‘Trade’ and ‘Culture’ were identified as the second most poorly represented areas. While cultural awareness might be linked with organised tourism promotion, traditional New Zealand exports are not likely to increase significantly (see macro-economic forecast for Hungary under Chapter 6 and trade development between New Zealand and Hungary under Chapter 8). ‘Diplomacy’ was ranked the most highly (50%) along with ‘Tourism’ in the ‘Adequately represented’ column, followed by ‘Culture’ with a 36% satisfaction. While the rating for ‘Diplomacy’ increased from 2005, ‘Tourism’ remained at the same level. The growing satisfaction with the diplomatic efforts was signalled in the positive comments of participants as well; however, there were still suggestions for a closer, more permanent New Zealand representation in the area.

‘Sport’ received the highest rating (29%) in the column ‘Don’t know’, followed by ‘Education’ and ‘Science’ (21%). These areas together with ‘Trade’ also received the lowest result (between 7-21 %) in the “Adequately represented” column. These findings indicate that in the Western world, the well propagated and rather traditional New Zealand promotional icons of sports and tourism are perceived to be relatively invisible in Hungary. As promotional packages and materials already exist, no further cost demanding ‘inventions’ would be necessary to improve this perception (see more detailed suggestions in Table 12.3, Chapter 12: Conclusion of the thesis).

Satisfied participants:

“The NZ Youth Choir comes to Hungary quite often.”

“Still a huge number of programmes about New Zealand on the nature channels. Every time I turn on the television I see a damn Kiwi or Weka. New Zealand is also the dream destination for a holiday for the vast majority of Hungarians and with the forint strengthening and incomes rising, I have met hundreds of people from here who have already gone.”

“We know there are a number of diplomatic visits to Hungary from New Zealand, but we usually hear about them after the fact. Nonetheless, my impression is that New Zealand is doing well in maintaining contacts with Hungary bearing in mind New Zealand has limited resources and Hungary is at the end of the day only a very small fish for us.”

“Despite the great geographical distance the outstanding quality of the New Zealand higher education and the culture of New Zealand are well known in Hungary. The diplomats of both countries make valuable efforts to strengthen the contacts.”

“Most Hungarians I talk to know a bit about New Zealand. They know it is far away and we have lots of sheep. They also say it is a wonderful place where everything is in harmony? Perhaps this is true compared to Budapest!”

“Our culture is often seen through New Zealand movies on television in Hungary and through some individual visiting artists and musicians.”

Dissatisfied participants:

“No real exposure of a positive nature.”

“Our diplomatic and trade development dollars would be much better spent developing markets in Russia – 75% of all generic [no name] butter used in baking bread in Russia comes from New Zealand or is sourced by a New Zealand company. Poland – has big consumer market so good target for our exporters; Romania – forestry potential; Bulgaria etc.”

“We have not found that number of New Zealand companies interested for the Hungarian market has grown since Hungary joined the EU. But we also have to accept that we are a very small country and a small market, and i.e. Poland might be more interesting for the New Zealand investors.”

“As far as I know New Zealand and Australia are linked in foreign affairs. So if Australia takes part in Gulf war, probably New Zealand does the same. That’s all a normal Hungarian knows about New Zealand.”

“As for the rest (other areas than culture) I really am not sure, as I am not sure what the standard is. I do my best as a private New Zealand citizen, but I receive no help from the New Zealand government or its agencies.”

“I try to keep an active interest in any news and information relating to connections between Hungary and New Zealand and from my point of view, New Zealand is quite poorly represented in all areas. I regularly ask Hungarians that I come across in my employment what they know about New Zealand and the answers are usually of a minimalist nature. Not to say there is complete ignorance but to say the promotion of New

Zealand is almost non-existent. Australia, on the other hand, is not well-publicised but seemingly more popular as a talking point if we talk of the Southern Hemisphere. None of the above topics are well-represented in my point of view. A case in point: when the New Zealand national soccer team played in Budapest last year, it was a surprise to all I met who were told about it. Many had no idea about the soccer team, no idea whether they were good, bad etc. Just one simple example but it is a benchmark for most of the above topics.”

“Diplomacy, trade and tourism would only be adequately represented if there was a New Zealand Embassy in Hungary with representatives from MFAT, and the relevant trade and tourism boards. The Air New Zealand representative who is also the Honorary Consul does a fine job in promoting New Zealand but he is only part-time in the Honorary Consul position (he has a full time job in the tourism business.)”

“Plenty of room for improvement in almost all areas.”

Inverting the mirror, the level of public information available about Hungary in New Zealand was found by only 14% of the participants to be adequate, while 72% felt that it was poor and 14% stating no opinion. It could be argued then, that Hungary should use more cost effective ways of promoting itself, for example staging cultural awareness events in New Zealand which are quite frequently held in different locations, and usually with very low exhibition costs.

Comments of participants:

“I guess anyone with internet access can now find out information about Hungary. But Hungary could do a better job for promoting itself as an affordable tourist destination for New Zealanders. But that would entail some outward looking, lateral thinking.”

“I do not know anything about our representation. I spent some weeks in Australia, and observed that a normal inhabitant has no idea, where Hungary is.”

“I think in case of interest there is quite a lot of information about actual things on internet in English language. I also found that young New Zealand people travelling around in Europe often do not miss Budapest.”

Table 10.2 displays the factors that according to the participants caused the most difficulties when establishing and maintaining relations between New Zealand and Hungary. Once again, most participants (85%) mentioned the distance between Hungary

and New Zealand as the most important barrier to furthering the relationship. As additional interviews revealed, distance as a trade barrier was perceived in two ways: it caused higher transport costs for goods, but it was also seen to a greater extent as a business risk because of the lack of either personnel present in the host country or the lack of a trusted representative there. Here, the Theory of Ethnic Networks suggests that ethnic networking and involving immigrants may help to overcome such difficulties.

Table 10.2: Hindering Factors between New Zealand and Hungary

Hindering Factors	% of all participants
Distance	85%
Lack of market knowledge	72%
Lack of financial investment	72%
Lack of networking	57%
Language barriers	50%
Unfamiliarity with customs and law	42%

Furthermore, a lack of market knowledge and financial investment (72%) were seen to be the next most important factors, followed by a lack of networking (57%). While the opinions of participants on the language barriers remained the same as in 2005 (50%), unfamiliarity with customs and law seemed to have more influence on establishing relations between New Zealand and Hungary (42%) than it was believed two years earlier (25%). According to respondents' comments, distance and a relatively small and saturated market made bilateral trading more difficult and uneconomic.

Comments of Participants:

“Small market, lack of transparency in Hungary on certain levels, very short term thinking/mentality at all levels of business.”

“Regarding business relationship: difficult to find products which are not available from nearer suppliers and the prices are competitive.”

“Big difference of culture, way of living, mentality, etc. caused by the enormous distance.”

“The main problem is distance.”

“Hungary and New Zealand have more in common than might be first apparent. They’re both intensely parochial countries, who think they’re at the centre of the world. They’re both isolated, New Zealand by 1000s of miles of ocean, Hungary by an impenetrable language. Maybe they could find some common ground to work on, though I doubt it will happen in my lifetime.”

“Both countries are small in terms of market potential compared to the physical distance.”

“I think New Zealand is too small a market for Hungary and vice versa. Most activity between the two countries in all probability will generally be because someone has a cultural link to either country. Trade between the two will be the exception rather than the rule. Nonetheless, there is more going on now than 5 years ago, but still pretty small stuff.”

“We are in a special situation as we are working in the agriculture and mostly in the animal sector. The production in this area is not growing, the animal number is slightly dropping. The market is flooded with foreign food products. We feel that the only way for growing is to get a slice of the business out of Hungary in the recently joined Eastern European countries or in Ukraine or in Russia. In the agriculture New Zealand still has a good reputation so we have to utilize this image.”

As 20% of all participants were Hungarians looking for opportunities in New Zealand, the next question was modified accordingly between the two groups:

- For New Zealanders: What resources would you require in order to benefit more from opportunities in Hungary?
- For Hungarians: What resources would you require in order to benefit more from opportunities in New Zealand?

While “Information about legal terms and conditions” had been seen as particularly important by 75% in 2005, this fell to just 14% in 2007. Conversely, information on market developments was seen to be important by 42% of the participants. The comments of participants revealed a need for further important resources as determined by their own commercial backgrounds. In line with the comments to the previous question, a common perception was that “trade will be the exception rather than the rule” between New Zealand and Hungary. On the other hand participants were the opinion that areas like research and development based on relationships between universities might bring more promising results.

Comments of participants:

“One area which I think is totally underexploited is R&D. New Zealand prides itself on being innovative as does Hungary and both countries have huge tax and other incentives to encourage R&D development – as do most countries as everyone wants to be a “thought-based” economy. I think that the R&D departments of all New Zealand and Hungary universities should start talking to each other. This is the best opportunities for both countries.”

“There are some areas of sciences and higher education where the direct cooperation would extremely be beneficial for Hungary, e.g. food science (food processing, food quality, etc.), horticulture, tourism and health tourism, environmental sciences. Powerful governmental support is needed to further the exchange and mobility programmes.”

“Governmentally backed agreements serving closer collaboration.”

“I would like to see a greater dialogue with companies representing New Zealand products in the market and a greater willingness to assist us and our New Zealand suppliers in really dealing with the many non-tariff barriers to trade that we face on the Hungarian market. At official level in New Zealand there is a tendency not to want to rock the boat of a friendly political relationship to progress market entry to a less important and smaller sized European market.”

“More economic and political stability in Hungary.”

10.3.2 Summary of Survey Results

Although fewer participants responded in 2007, those who did showed a real interest in the topic. This can be seen by the fact that more of the respondents made use of additional comments and were keen to make suggestions for the future diplomatic and economic policy of New Zealand. Additionally, the comments provided by respondents were generally much longer and more detailed than those in 2005. Taking both statistical survey results and individual comments into account, the findings of the survey conducted in Hungary in 2007 can be summarised as follows:

1. Doing profitable business in Hungary has become more difficult since 2005. The Hungarian market was evaluated by many as too small and saturated.
2. There is a low level publicity about New Zealand nearly across all sectors, but especially in science, education, culture and trade.
3. Special potential was seen in promoting the perceived poorest represented areas - scientific and educational linkages - between New Zealand and Hungary.
4. More involvement and coordinated efforts from governmental and/or diplomatic and trade representatives were expected to promote New Zealand in the region.

10.4 Comparison of Significant Survey Results

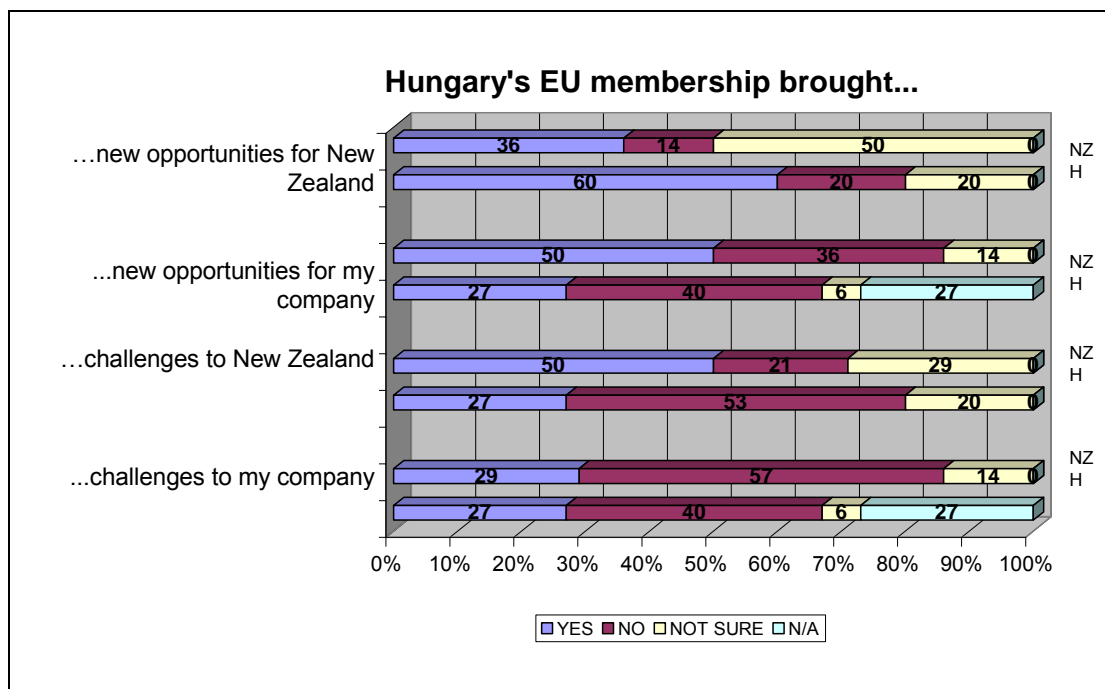
To conclude this chapter, in the following section the most important New Zealand and Hungarian follow-up survey results are compared with each other.

#1 Consequences for New Zealand from Hungary's EU-membership

Figure 10.5 shows the aggregated opinion of survey participants on whether Hungary's EU membership has brought more opportunities and/or challenges for New Zealand in general and for their workplace in particular since 2005. Generally it can be seen that participants

in both countries were more disappointed, especially when compared with the somewhat optimistic assumptions made two years earlier. It is interesting that while more participants from Hungary than from New Zealand were of the opinion that the opportunities for New Zealand were increasing, they saw less opportunities for their own specific companies/organisations. Fewer challenges were perceived in Hungary than in New Zealand, and the number of responses using the 'not sure' answer was also smaller in Hungary, than in New Zealand.

Figure 10.5: Challenges and Opportunities for New Zealand

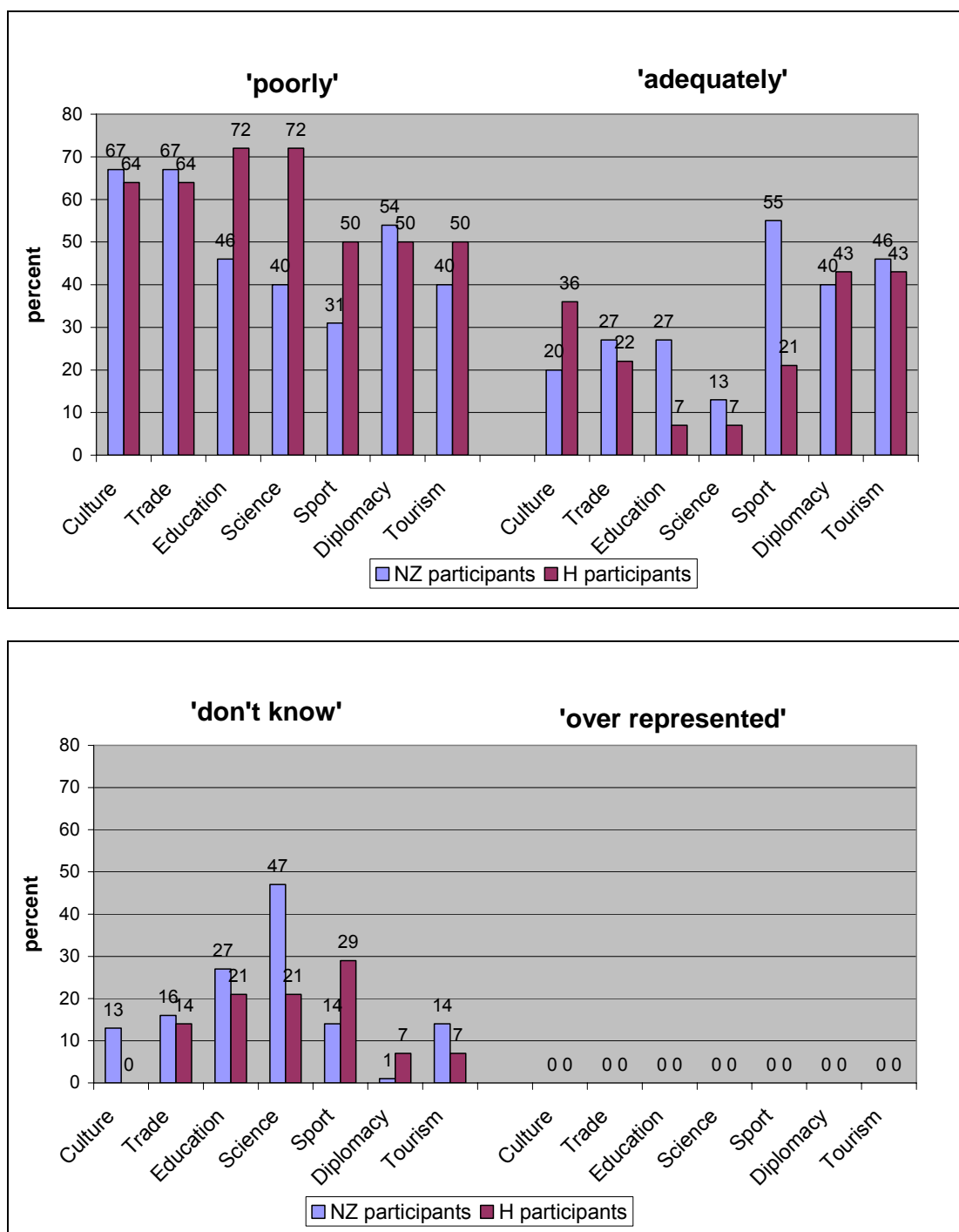


Similarly to the suggestions made in 2005, participants from Hungary in 2007 encouraged both countries to think in terms of geopolitical zones when looking for new markets instead of concentrating on single countries. The existing and new EU Member States in Central and Eastern Europe, including Russia, were identified as potential markets for New Zealand.

#2 New Zealand's Representation in Hungary

As shown in Figure 10.6 most participants from New Zealand and Hungary selected the answer 'poorly represented' across the different categories. While New Zealand participants perceived the biggest deficits to be in the areas of culture and trade, participants in Hungary rated education and science to be more problematic. Participants in New Zealand also seemed to be more satisfied with the level of New Zealand's representation in Hungary in all areas except culture and diplomacy than did their Hungarian-based counterparts.

Sport was perceived to be the most adequately represented area according to the New Zealand survey, but it reached just 5th place in the Hungarian survey. Combining the results of both surveys, diplomacy and tourism seem to be seen as the most adequately represented areas, although even those highest scores were only between 40% and 46%. More participants in New Zealand than in Hungary felt that they had no information about New Zealand's representation in Hungary across all sectors, with the exception of sport and diplomacy as was shown by the number of "don't know" responses.

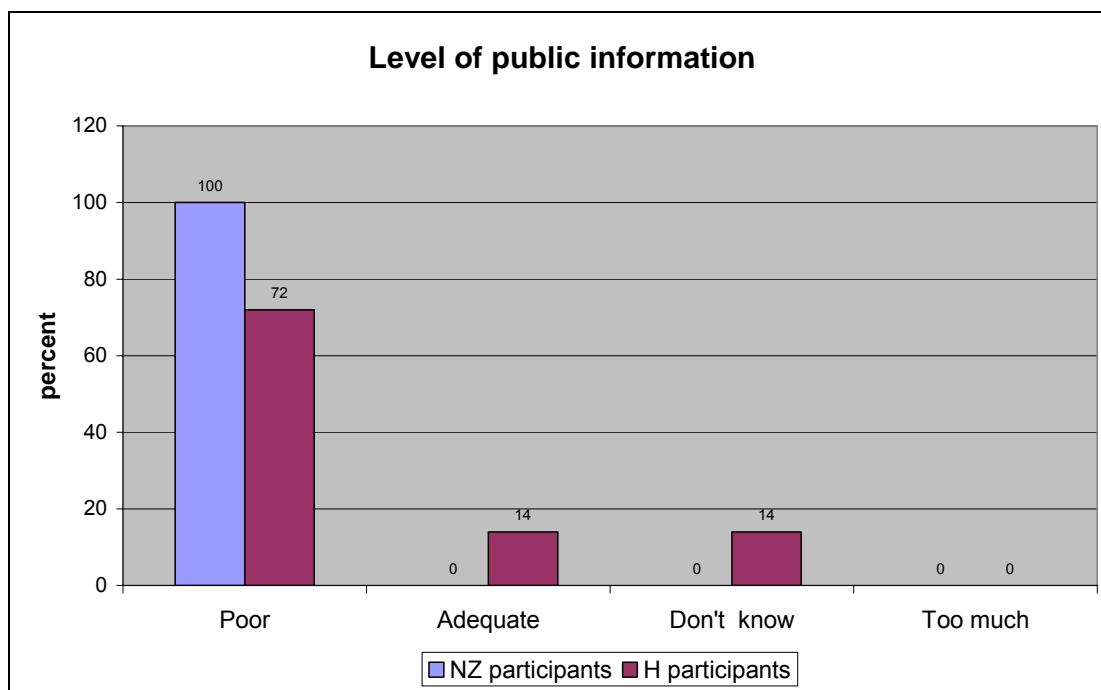
Figure 10.6: New Zealand's Representation in Hungary

#3 Public Information in New Zealand about Hungary

All participants from New Zealand were of the opinion that the level of public information available in New Zealand about Hungary and Central and Eastern Europe in general was very low (Figure 10.7). According to the Hungarian survey just 14% of the participants

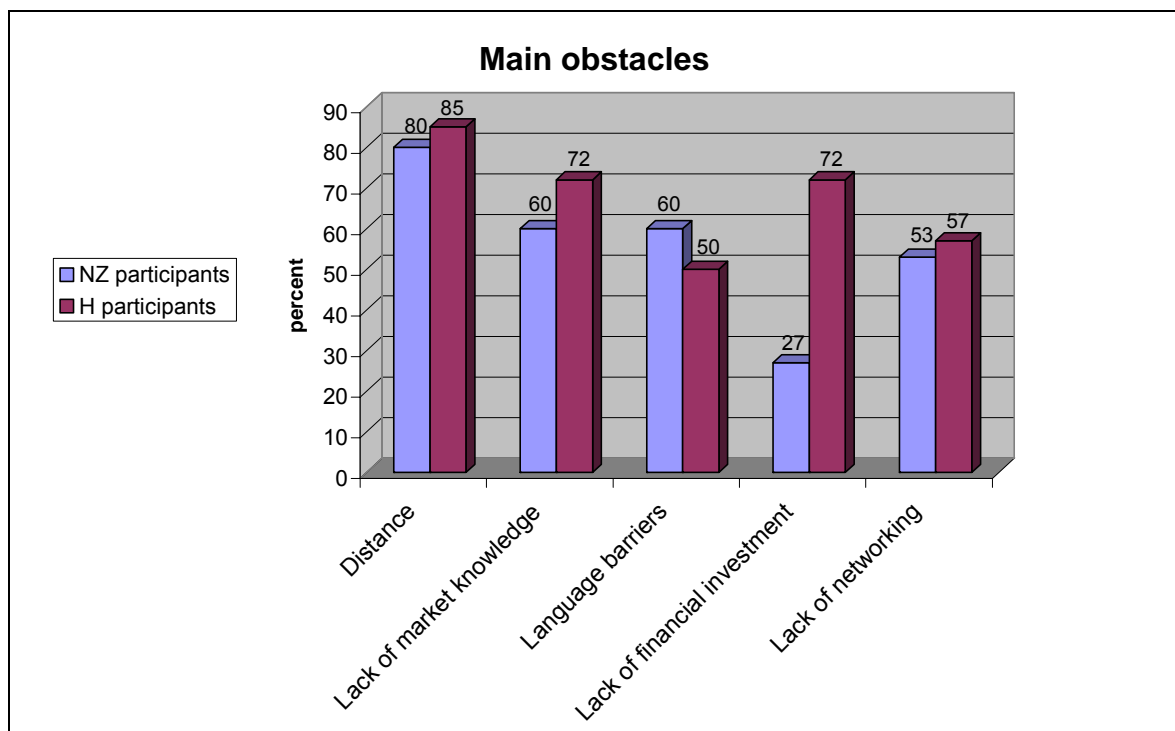
found the information to be adequate with another 14% feeling they had no reliable knowledge.

Figure 10.7: Level of Public Information in New Zealand about Hungary



#4 Main Obstacles to Greater New Zealand Presence in Hungary

In both countries, distance was perceived to be the biggest obstacle to further engagement (Figure 10.8), reflecting a similar response in 2005. Participants in Hungary ranked a 'Lack of financial investment' in the second place together with 'Lack of market knowledge', while 'Lack of financial investment' was seen as the least most important obstacle from New Zealand's point of view. The reason that a 'Lack of financial investment' was not seen to be one of the most important trade obstacles in New Zealand may also lay in the fact that New Zealand has a stronger economy than Hungary, meaning that New Zealand business people and their enterprises are in general, usually better equipped financially than are their Hungarian counterparts.

Figure 10.8: Main Obstacles to More New Zealand Presence in Hungary

10.5 Comparison and evaluation of macro and micro-level results

The purpose of this chapter is to compare the macro-level data with the information received from questionnaires in the four main areas of diplomacy, trade, tourism and research/education. Based on the findings at both the macro and micro levels of research, the question of New Zealand's visibility and publicity in Hungary is also addressed.

10.5.1 Diplomacy

The number of diplomatic visits between New Zealand and Hungary since 2004 can be regarded as satisfactory in relation to the size and relative importance of both countries to each other. A qualitative analysis of these visits, however, indicates a less satisfactory result. While in general, Hungary's support at non EU-related multilateral forums was secured (as in, for example, the International Whaling Commission), agreements on economic related diplomatic goals in particular were not always able to be reached (for

example the failure to sign a Working Holiday Scheme, or to reach agreement on Social Security). Although Hungary has expressed a long-term interest in reforming the CAP, just how far New Zealand's interests will be supported within the EU and at the WTO remains to be seen.

Though the professional scope of delegations in both directions over the last three years has extended from trade policy to education and science, significant developments in these areas were not achieved. According to the survey results, research participants were aware of the growing number of bilateral visits. Criticisms were, however, expressed by respondents in two areas: firstly, participants felt that these visits were not paired with any "publicly visible" promotion either in Hungary or in New Zealand. Secondly, participants claimed that they felt they were lacked a level of support from their governments, diplomatic representations or related agencies to allow them to better utilise prospects in trade, tourism, education, science or culture.

The most frequently desired expectations of survey participants from their governmental and diplomatic bodies were to have an accessible information system on the legal and market conditions, a database for networking, New Zealand promotional material (Kiwiana), financial support, and meetings with expatriates before and/or after official visits. (See relevant suggestions in Table 12.3, Chapter 12: Conclusion.)

Both New Zealand diplomatic representatives and survey participants shared the opinion that covering Central and Eastern European countries partially from Berlin, Warsaw, Rome, and Brussels is somewhat chaotic⁴⁷ and with the present low number of staff is not

⁴⁷ The New Zealand Ambassador to Germany is accredited to Austria, Czech Republic, Hungary, the Slovak Republic and Switzerland.

satisfactory. To solve the problem, different suggestions were expressed, pointing out the relevance of geographic location (closeness) of countries accredited to an embassy. A New Zealand diplomatic representative had been of the opinion that although covering Hungary and other Central European states from Berlin is not optimal, it is the best ‘neutral’ location available. He argued that in the case of opening a representation in one of the Central and Eastern European countries (e.g. Hungary) other countries accredited to this new office could feel ‘under evaluated’ (e.g. Romania, Czech Republic). How fair this argument was to the presumed ‘sensibility’ of the countries is perhaps questionable but might be worth investigating nonetheless. Business survey participants in particular expressed a desire for a trade-related direct representative either in Budapest or in one of the neighbouring capitals.

The tasks and effectiveness of honorary consulates were widely considered insufficient by survey respondents. It was a commonly expressed opinion that a “part time job” is not enough to promote New Zealand adequately. From the point of view of the government, however, honorary consuls working from home or from their work-place are considered cheap and effective alternatives to embassies.⁴⁸ While all Hungarian Honorary Consuls in New Zealand are first or second generation Hungarian expatriates who maintain relations to Hungary⁴⁹, New Zealand expatriates in Hungary found it difficult to accept that their

The New Zealand Ambassador in Poland is accredited to Estonia, Latvia and Lithuania.

The New Zealand Ambassador in Italy is accredited to Bosnia, Croatia, Cyprus, Greece, Malta, Portugal and Slovenia

The New Zealand Ambassador in Belgium is accredited to Luxembourg, Bulgaria and Romania .

⁴⁸ According to the information received from Nick Longdon, Deputy Director Finance at MFAT, the New Zealand Berlin Embassy’s operational costs were NZ\$ 4,480,074 in 2006, while that of the New Zealand Honorary Consulate were NZ\$ 5,000 in the same year.

⁴⁹ Hungary is one of few countries to organize regular conferences for its honorary consuls. The 4th such a world-wide forum was held in Budapest on 26/27 May 2008. According to the announcement of the Hungarian Ministry of Foreign Affairs at the conference, where possible “highly esteemed personalities of the Hungarian expatriate community” are selected to these posts.

‘New Zealand’ Honorary Consul was not a “kiwi”, but was instead a native Hungarian citizen with no ties to New Zealand. While the New Zealand government was of the opinion that appointing a Hungarian citizen might open more commercial doors, New Zealanders living in Hungary stated that an expatriate could better identify themselves with the tasks of representing its nation’s values and interest abroad. They also argued that those New Zealanders living in Hungary for years have established similarly valuable connections throughout the country. Given the part-time nature of the Honorary Consulates, some found the efforts adequate while others claimed that it was “no more than a lip service” which brought no tangible advantages.

At the time of the survey New Zealander expatriates seemed not to have built a cohesive community around their honorary consul, and, according to the interviews, the possible valuable contribution by expatriates appeared to be under-utilized. A review of the names of the New Zealand honorary consuls in the Czech Republic, Croatia, Slovenia and Poland revealed a similar appointment policy to that the New Zealand Government applied for Hungary: all these honorary consuls seem to be the natural citizens of the host countries. It might be worth investigating whether there is a New Zealand Diaspora in these countries and what their relationship is to the honorary consuls (see relevant suggestions in Table 12.3, Chapter 12: Conclusion). In the other Central and Eastern European countries like Slovakia, Romania, Bulgaria, Serbia and the Ukraine no New Zealand honorary consuls have been appointed.

In terms of the diplomatic relations between New Zealand and Hungary at operational levels, survey participants in both countries suggested a need for more direct ties between different government ministries and professional organisations (especially in areas such as

agriculture, development aid, education, IT, biotechnology etc. This is discussed further in the section research and education.) Thus, according to the respondents, a high-level visit should create a framework for future cooperation and ideally introduce professionals to each other who would be responsible for establishing and running actual projects. This argument is also in-line with Hungarian diplomatic suggestions; however, no information could be obtained on whether Hungary has initiated any steps to establish such connections at operational levels.

10.5.2 Trade

The biggest difference between the macro and micro level results (that is between the governmental decision-makers and the “individual” research participants) arose around the question of how much energy – by which was meant costs – should be devoted to maintaining relations between New Zealand and Hungary. While there is agreement that the benefits should be measurable, the level of what was perceived to be valuable expenditure were different. At a macro level both in New Zealand and Hungary, when no security issues are at play, the trade figures are the most frequently used determinants for evaluating the importance of a country. According to export and import figures, neither of the countries is ranked within each other’s 50 most important trading partners statistically. According to the Hungarian Central Statistical Office New Zealand was Hungary’s 62nd most important trading partner in 2003, whereas Hungary was ranked only 106th by Statistic New Zealand in the same year. Recent developments have shown that Hungary has more than doubled its exports to New Zealand within the last seven years, while during the same time period New Zealand’s exports to Hungary have tended to decline. Exports in years 2006 and 2007 however show a positive development.

Despite this low importance rating, research participants particularly from the trade sectors stressed the need to establish some kind of New Zealand trade office in the Central and Eastern European region. The perception was that the Embassy in Berlin is far too distant and understaffed, but “might work” if given additional resource; however the trade representative office (NZTE) in Milan (Italy) was evaluated as being invisible and in terms of approaching Central and Eastern European countries, was no use at all. Interestingly, none of the participants who referred to the NZTE office in Milan were aware that since 2006 Hungary has become accredited to Hamburg. One of the reasons might be that Hungary is not displayed on the NZTE foreign posts homepage (<http://www.nzte.govt.nz/section/14480.aspx>) anywhere (while listing all other countries in Central and Eastern Europe including Albania, Montenegro, and Macedonia). While the Milan office saw no opportunities in the new EU Member States, the Hamburg office was slightly more optimistic. It planned, however, no New Zealand promotion in the region. Under the motto ‘some trade is better than no trade at all’ research participants were of the opinion that there are business opportunities which could be utilised by New Zealand enterprises instead of other foreign companies.

10.5.3 Tourism, Research, and Education

Macro-level figures for the tourism and education sectors (in particular the number of Hungarian students in New Zealand and vice versa) were close to zero. The possibilities for attracting students to learn English in New Zealand or other young people who might visit the country as research participants from non-governmental sectors were viewed rather pessimistically. The lack of a “Working Holiday Scheme” compared with the ‘unlimited’ opportunities for similar employment within Europe made the offers from New Zealand not attractive enough. According to the information provided by Tourism New

Zealand the focus in Europe remains on the main inbound travel markets of the UK, German speaking countries, the Netherlands and Scandinavia. Thus, no opening towards the new EU Member States is to expect from Tourism New Zealand.

In contrast, bilateral research cooperation based on relations between universities in New Zealand and Hungary had a much stronger position. This sector was evaluated by both Hungarians and New Zealanders as having good potential for developing wider bilateral relations between the two countries. The micro-level results have also strengthened this perception, and individual participants urged decision-makers to provide greater governmental support to establish and maintain the connections between research centres and to facilitate researcher exchanges.

10.5.4 New Zealand's Visibility in Hungary

The monitoring of Hungarian newspapers and television programmes during the research period revealed a rather one-sided and limited visibility of New Zealand, and individual research participants harshly critiqued even this amount, claiming that it was primarily to the credit of the Hungarian media and education system rather than any New Zealand-initiated promotional projects or programmes.

The participants from the non-governmental sectors were mostly of the opinion that the development of non-trade related areas like participation in joint research projects, the promotion of New Zealand as a potential tourist destination paired with employment possibilities, and an involvement in different development projects in the region may counterbalance the low trade figures in the long-term by creating higher visibility for New Zealand. Supporting these 'soft' initiatives could arguably lead to more supporters in the Central and Eastern European region which might in turn bring long-term advantages in

trade figures for example, when dealing with the EU as a whole. The wish for more coordinated diplomatic/government driven campaigns in the region was also expressed frequently during the research period.

Criticism was also expressed regarding the low public awareness and knowledge in New Zealand concerning the EU in general and the new EU Member States in particular. New Zealand expatriates and those who had spent several years in other European countries as diplomats or trade representatives particularly noted the low level of primary and secondary education in subjects like geography, history (including politics and culture history) as well as languages in New Zealand. The fact that the New Zealand government stresses the importance of the country's European cultural heritage and value system was seen as being of limited societal relevance when generations leave primary and secondary school without having received insight into the geographic, historical and socio-cultural development of the European continent since 1945. Many participants suggested the re-inclusion of these subjects into the New Zealand schools' curriculum.

Within the constraints of the comparatively small data-set, these broad findings have highlighted a number of trends, although the extent to which generalisations can be drawn is limited. To enrich the findings of micro and macro level analyses, two companies in New Zealand and two in Hungary were asked to participate as case studies over two years of the research. Their experiences are presented and discussed in the next Chapter.

Chapter 11

CASE STUDIES

11.1 Introduction

In addition to the generalised and anonymous comments discussed in the previous two chapters, four companies involved in the surveys and interviews were approached to participate as case studies in this investigation, in order to detail more specific experiences of engaging with both Hungary and New Zealand. These four case studies provided valuable information not only on their own developments and situation at the time of the interviews in 2005, but they were also happy to have their businesses monitored for the years 2006-2007 and to make these longitudinal experiences available to this study. Chapter 11 ends with the comparison of findings received from the four case studies.

The aim in presenting case studies is not to make generalisations *per se*, but rather to draw attention to the similarities and/or peculiarities between individual cases and the broader questionnaire results. Based on the criteria of having a “present involvement in trade or common projects of any nature between New Zealand and Hungary”, the goal was to seek companies who represented the three most important industries in the New Zealand-Hungary relationship that were identified by the survey participants in 2005: agro-technology, education and tourism. (Further details and justifications for using case studies were addressed in Chapter 2 on Methodology).

While education and tourism were identified as potential new sectors for New Zealand in the Central and Eastern European market, agro-technology can instead be considered as a traditional New Zealand export industry. For these reasons the case study companies from the education sector (Aspiring Language Institute Ltd) and tourism sector (Study Tours

Ltd) are relatively young compared to the two agro-businesses involved (HUNZAG Kft. and Bentley Hungary Kft). The reason to include two companies from this sector was the different background of the two companies HUNZAG Kft and Bentley Hungary Kft (former TRU-TEST Kft). The founding of HUNZAG Kft in 1988 was based on the success of the first joint intergovernmental pastoral breeding project between New Zealand and Hungary between 1985-89 (see Chapter 7 on the Milestones in the development of relationships between New Zealand and Hungary). TRU-TEST Ltd., on the other hand, (based in Auckland) was one of the first New Zealand companies that established direct subsidiaries in Hungary (1988) and in other Central and Eastern European countries. Although TRU-TEST Ltd sold its Central European companies to the USA-based Bentley Instruments, the general manager of the Central and Eastern European companies remained a New Zealander, Mr. Gavin Thompson. While both companies had dissimilar backgrounds and evolved in rather different ways, their product ranges are partly in competition.

Information for the case studies came from a variety of sources: from interviews conducted with the owners and/or managers of the companies; through correspondence with them; and, from official publications of the companies. After gaining insight into the background of the companies, the interviews focused on the then situation of the companies (in 2005 and 2007) in the Central and Eastern European markets and on the opportunities and/or difficulties that were perceived to result from the EU accession of Hungary and its neighbours from Central and Eastern Europe. Each case study report is followed by a content analysis focusing on the information pertaining to categories derived from the thesis' key research questions: description of the Hungarian market; description of the regional market; competitive versus not competitive products/services; and, suggestions for

the future. The findings are contextualised against the results of the surveys presented in the previous chapters, and, finally, after reviewing all four case studies individually, the findings are compared to identify potential similarities and highlight contradictory perceptions.

11.2 HUNZAG KFT

11.2.1 Background

Interviews were conducted in 2005 with the following individuals involved in the establishment and management of HUNZAG Kft.:

- Mrs. Marianne Kovalszky (Budapest), former assistant manager and present manager of HUNZAG Kft. As the present acting manager of the company, Mrs. Kovalszky was the interviewee both in 2005 and 2007 who provided the most up-to-date information about the company;⁵⁰
- Mr. John C. Paterson, director of PGG Ltd (Christchurch) and ex-director of HUNZAG Kft⁵¹ and,
- Mr. Peter J. Wardell (Christchurch), ex-managing director of HUNZAG Ltd, who spent three and a half years based in Hungary in the 1980s.⁵²

All three interviewees evaluated the first five years of the company as very successful. In addition to their business success, both Mr. Paterson and Mr. Wardell emphasised their very positive experiences regarding the intercultural working relationships between New Zealand and Hungarian colleagues. After nearly 20 years, both men still maintain relationships with ex-colleagues from Hungary.

⁵⁰ Interviews conducted with M. Kovalszky in Budapest on the 11th September 2005 and 05th July 2007

⁵¹ Interview conducted with J.C. Paterson in Christchurch on the 16th April 2005

⁵² Interview conducted with P. Wardell in Christchurch on the 2nd May 2005

HUNZAG Kft was jointly-founded by Pyne Gould Guinness Ltd (Christchurch, New Zealand), Mezőfalva State Farm, and two Hungarian banks in 1989, after a successful three years of the New Zealand–Hungarian joint livestock and pastoral improvement project in the Lajta Hanság State Farm and Mezőfalva State Farm. HUNZAG Kft also became the official representative of the New Zealand Trade Development Board (TRADENZ), the predecessor of New Zealand Trade and Enterprise (NZTE) in Hungary.

The joint venture company has been formed to further promote livestock and pastoral improvement projects (including sheep, dairy and beef cattle and deer farming) in Eastern Europe and also to represent a large number of New Zealand companies involved in manufacturing and supply of advanced agricultural farm equipment, machinery, animal identification and health products, livestock and technology, supply and installation of abattoirs and woolscours. (Paterson and Wardell, 1989 p.10)

One of the biggest events of HUNZAG Kft was the organisation of the “New Zealand Agricultural Technology Field Days” with the New Zealand Trade Development Board in May 1989. (See Chapter 7 for details about the development of relations between New Zealand and Hungary prior to 2004).

According to Mrs. Kovalszky and Mr. Wardell, the changes in the landownership in Hungary between 1990 and 1994 caused serious difficulties for both the farm projects and the company alike. During the period, large state farms and cooperative farms were divided into smaller areas and were either given back to the former owners or sold on to compensate their families. The claims and legal circumstances during this time were rather chaotic and complicated and the new “dwarf-farms” were not rentable owing to the small farm sizes and the lack of capital, technology and expertise. Being unavoidably affected by these changes, the distribution of agro-technological products in Hungary became increasingly difficult and sales began to decline for HUNZAG Kft. from the second half of the 1990s. The closure of the New Zealand Embassy in Vienna and that of the Trade

Representative Office in Budapest meant less attention and contact with the New Zealand official bodies for HUNZAG Kft.

11.2.2 Situation Analysis (2005)

Mr. John Paterson, son of Mr. John C. Paterson, became the New Zealand director of HUNZAG Kft in 1991 and he also took over the majority ownership from Pyne Gould Corporation Ltd in 2003. His company and Mezőfalva State Farm are the primary owners of HUNZAG Kft. Mr Paterson currently resides in the USA but regularly visits the head office in Budapest, three or four times a year. On a daily basis Mrs Kovalszky manages the company and is responsible for the daily business operations, acting in close contact with Mr Paterson.

According to Mrs Kovalszky, it is no longer possible to sell agricultural consulting as a service in Hungary. Farmers who buy products and technology expect that consulting services and advice will be provided alongside these purchases, free of charge. The Hungarian agro-technology market also has become quite saturated. Concurrent distributors come from Holland, France, Germany and the USA, and most have direct manufacturing sites in Europe which enables them to supply the market demand more quickly and efficiently than can a company which orders and transports from New Zealand.

The main products HUNZAG Kft distributes are animal identification eartags, electric fence energisers and a wide range of accessories, freeze free irrigators sprays, fluid for animal marking, tattoo paste, quarter milkers and smaller dairy accessories, calf hutches, scales, hoof care products, sheep shearing machines, fly repellent, animal handling

products, vitamin and mineral supplements for horses and pets, and baby care sheepskin rug. In addition to her role as Managing Director of HUNZAG Kft, Mrs Kovalszky also represents the following New Zealand companies in Hungary: Gallagher Electric Fencing Group Ltd, Shoof International Ltd, Hurricane (netting fence), Vitapower Ltd, and Bowron baby care.

To remain tenable and to offer a wider range of products for their farming customers, HUNZAG Kft also opened itself up to the distribution of products from Europe, i.e. France, Holland, Germany and the UK. At the same time, some of HUNZAG Kft's previous New Zealand suppliers also established European distribution centres (eg. Gallagher), or through ownership changes, are based in France and supply Europe from there (eg. Allflex eartags).

Plans for 2006-2007

The markets of Romania, Bulgaria and Croatia were perceived by the company as worthwhile approaching. Although there is arguably huge potential in the markets of the Ukraine and Russia, they were considered not to be safe enough.

According to Mrs. Kovalszky, HUNZAG Kft was looking for appropriate representatives in these areas. In the meantime, HUNZAG Kft was primarily focused on successfully fighting the growing competition among the distributors and increase the volume of sales, while at the same time, maintaining a good quality product range at a reasonable price level. Mrs. Kovalszky also noted that they were constantly seeking new products for sale, although she acknowledged that this was not an easy task. And finally, the company was

constantly concerned with adapting quickly to the new circumstances of the EU environment.

11.2.3 Follow-up Survey (July 2007)

When asked to summarise the company's developments over the last two years, with special consideration given to the effect of Hungary's EU membership, Mrs. Kovalszky was of the opinion that it remains difficult for small companies to receive financial support from different EU subsidy frameworks. Middle-sized and larger companies have more financial possibilities for hiring professionals to write successful applications for them, although Mrs. Kovalszky noted that even those with successful applications often have to wait a year or more to receive their approved financial support. Therefore, Mrs. Kovalszky argued, although small agricultural enterprises could arguably build a large client-base for HUNZAG Kft, their restrained financial possibilities do not permit sufficient technical modernisation and thus hinder their potential development.

Winning orders from larger potential clients with solid financial backgrounds has also become more difficult, according to Mrs. Kovalszky, primarily due to rising international competition and to more aggressive forms of market policies and strategies. Big internationally established agro-technological competitors from Holland, UK and France have the advantage of financial support from their head offices to penetrate the Hungarian market and that of the other new EU Member States with glossy brochures, catalogues and other money-intensive incentives. In this context, it was extremely difficult for stand-alone domestic companies to remain visible in the market. The declining level of livestock in Hungary had also contributed to a drop in turnover in the years 2006 and 2007.

Concerning the new international market opportunities in Eastern Europe, the difficulties were perceived to be largely similar to those experienced in Hungary. Despite these, however, HUNZAG Kft has managed to build a joint venture in Romania for electronic fences and there is also some potential for an Estonian distribution.

Summarising the experiences of the last two years for HUNZAG Kft the company's development can be evaluated more negatively than positively. The lack of a production site somewhere in Central or Eastern Europe makes it difficult to offer products from New Zealand because of a limited storage capacity in the region. Over the last few years, HUNZAG Kft has had to broaden its product range to supply clients with products from similar companies when necessary. More positive developments involving the distribution of other New Zealand products in the surrounding markets might be achieved with more marketing campaigns and support from the head offices and frequent participation in regional agricultural fairs. For example, a huge international agricultural fair was held in Serbia in 2006 at which HUNZAG Kft was unable to participate because of the high costs. By combining these efforts with the provision of more readily accessible financial assistance from different EU tenders for family owned and other small businesses, arguably the company can achieve greater positive outcomes.

11.2.4 Summary of Case Study

Approaching the case study of HUNZAG Kft from an economic point of view we can say, that both HUNZAG Kft as well as the companies it represented in the early 1980s enjoyed a multiple advantages in the Hungarian market: they were the first Western agro-technology providers behind the Iron Curtain; had stable, large volume ordering clients with state guaranty for payments; and through the initial joint New Zealand-Hungarian

pastoral research project they developed connections to policy makers, scientist and business men alike.

These excellent assets could, however, be just partially utilised in the changing legal and market conditions of the 1990s. The change in the quantity of orders (many small farmers with finance difficulties) and the emergence of new competitors from Holland, France and the USA would have required the development of a new logistic and market policy not just by the HUNZAG as main distributor but particularly by the represented New Zealand companies. The withdrawal of NZTE from the Central and Eastern European region lessened the possibility of a more organised, new joint market campaign. Although the company was an excellent source of immediate information about new market conditions and costumer expectations (“free professional consulting”, “just in time delivery”) and as such it urged a “more frequent participation in agricultural fairs”, “more marketing campaign” and “establishment of productions or storage sites in Europe”, this information was not utilised by the New Zealand companies. This inevitably led to the situation where HUNZAG Kft needed to store and distribute products from European competitors in increasing quantities while New Zealand companies gradually became squeezed out of the market.

As for the future, although Romania and Estonia were evaluated as potential markets, being Member States of the EU suggests there will be similar challenges concerning competitors and customer expectations as for the Hungarian market. While the HUNZAG Kft might survive as a distributor of international agro-technological products, the danger is that with time nobody will associate the letters “NZ” in the name of the company with New Zealand.

11.3 Bentley Hungary Kft

- Representative of Tru-Test Ltd and Zee Tags Ltd, New Zealand

11.3.1 Background

Tru-Test Ltd. (Auckland, New Zealand) is the leading supplier of milk meters and electronic weigh scales for livestock in New Zealand and enjoys an international reputation with its products. The company's first office in Central and Eastern Europe was opened in Budapest (Hungary) in 1988. Further offices were then opened in the Czech Republic (1994) and Poland (1996). Tru-Test then sold these three companies to Bentley Instruments Inc of the U.S. in early 2000. Bentley established subsidiaries in Russia (2000), Ukraine (2004) and Romania (2005) working through its subsidiaries in Hungary and the Czech Republic. In addition to managing the distribution of its own products manufactured in New Zealand, the company also acted as an agent for agro-technological products of other companies from New Zealand, USA, UK, Germany and France.

While agriculture was heavily subsidised by the Hungarian state during the socialist era and payments were granted, subsidies were removed after the collapse of Communism and agricultural interest rates rose dramatically to 20-30%. These developments caused serious problems for individual farmers who desperately needed new, high-tech agricultural equipment to raise their production quality and profitability. New farm owners also faced further difficulties in obtaining bank loans for their investments.

Suppliers of high value agricultural technologies like Tru-Test were forced to change their market strategies and adapt to these market developments of the 1990s. Instead of dealing with a few large orders by state-owned farms and institutions they had now to cope with

numerous small farmers who lacked secure financial backgrounds. The crash of the Rouble in 1998 made this period for international businesses with interests in Eastern Europe even more challenging. According to Mr. Gavin Thompson, who had worked for Tru-Test since 1989 managing its Central Europe subsidiaries, "...it was the possible worst time to close both the office of Trade New Zealand and the New Zealand Embassy in Vienna that was cross-accredited also to Hungary"⁵³ because it unnerved those New Zealand companies with investments there. If the Government was closing its offices, why should they persevere in increasingly difficult circumstances?

In an interview in 1996,⁵⁴ Mr. Thompson stated that despite these difficulties, he did not lose confidence in the Central and Eastern European market and instead developed new coping strategies. "My strategic vision", he claimed, "is to develop individual, independent offices in as many countries as I can...For me, the future will be the Russian market". He also addressed the eventual necessity of manufacturing in Central and Eastern Europe: "What I'm really trying to do all the time is integrate. I've moved the company away from selling off the exotic New Zealand image, because what Central and Eastern Europeans really respond to is quality products that work, from a local company."

11.3.2 Situation Analysis (2005)

According to Mr. Thompson, the consolidation of the dairy industry with foreign ownership went quite quickly in Hungary in comparison with other new EU Member States. From a professional point of view, Hungary also had very high quality milk products and the country was open to new technologies. On the other hand, after the

⁵³ Interview with G. Thompson in Budaörs 11. September 2005

⁵⁴ Conducted by Carrol du Chateau in 1995, published by Management Magazine, March 1996, page 30

restructuring of the dairy industry, several large milk companies including MIZO and Parmalat, went bankrupt causing instability in the industry.

Mr. Thompson also addressed the problem of corruption at political levels (whereby bribes and 'gifts' are seen to accelerate decision-making processes and influence the outcome of these decisions). He was of the opinion that EU membership itself has no positive impact on the level of corruption in a country, as he claimed could be seen in the situations of long-time Member States like Italy and Greece.

Mr Thompson was firmly of the view that there is still too much government involvement in the Hungarian economy. He argued that, compared with West European countries, the number of public servants in Hungary compared with the total working population is very high. Long term he felt this leads to economic inefficiencies and a lack of economic competitiveness, which will ultimately see foreign investment (such as in the car assembly industry) go to Hungary's neighbours, rather than to Hungary.

Concerning Hungary, he mentioned two examples of government involvement in the economy that have had a direct impact on his company. Firstly, while from the point of view of an agricultural technology supplier the EU's agricultural compensation scheme has had the positive effect of enabling farmers to buy high quality equipment, in 2005 the money was retained by the Hungarian Government and only paid to the farmers 6 months after the official EU transfer. As a result, farmers and their suppliers had to wait half a year to conclude necessary investments, meaning that their supplying companies (in this case Bentley Hungary Kft) also lost out on the income until that time.

Secondly, Bentley Hungary Kft is engaged in litigation with the Hungarian National Agricultural Quality-assurance Institute (Országos Mezőgazdasági Minősítő Intézet – OMMI) over the issue of a national tender for cattle eartags. While the market is open for eartags for other live-stock, there is still a government tender for a five year supply of cattle eartags. This means that farmers can only buy eartags from the company that won the tender, and not from different market suppliers. According to Mr. Thompson, this removes the free market and causes higher costs for the farmers. The tender for eartags was highly restrictive which led to a series of challenges to its terms in the Procurement Court and the Budapest District Court. Bentley Hungary Kft would like to see the cancellation of the tender. The official registration of eartags could remain the responsibility of the OMMI.

Summarising his experiences over 20 years in Hungary and Central Eastern Europe, Mr. Thompson was of the opinion that while Hungary was a good place to establish new businesses in the 1980s and 1990s, the agricultural market today is rather saturated and he felt that it would be difficult now for newcomers to operate successfully. Taking into account rising fuel costs and the demand for a just-in-time supply of products, New Zealand has to consider moving from New Zealand-based manufacturing to manufacturing closer to the local markets in order to remain competitive. In terms of New Zealand's trade-promotion in Central and Eastern Europe, Mr Thompson felt that a trade office in Hungary might be beneficial and he envisaged that further opportunities for New Zealand might exist with proper promotion in the educational industry, such as student exchanges.

Goals for 2006-2007

Bentley Hungary was in the process of introducing a number of new agricultural equipment products to their range, mainly from Britain and other countries. Mr Thompson did not see many more opportunities from New Zealand for agricultural equipment that is currently on the market, but was interested in new product developments.

Bentley remained as a resource to New Zealand producers of agricultural and dairy equipment. The company was the legacy of a 'can-do' New Zealand attitude that saw opportunities in Central Europe at a time of restructuring when wholesalers were lacking in the Hungarian market, so they established their own wholesaling operation. Working from Hungary, the company has developed an extensive distribution network throughout Central and Eastern Europe, from Estonia to Turkey and across the Urals into the Asian territories of the Russian Federation.

11.3.3 Follow-up Survey (July 2007)

At the time of the follow-up survey in 2007 the legal process between Bentley Hungary Kft and OMMI was still on-going. Results were expected towards the end of year 2007.⁵⁵ According to Mr. Thompson⁵⁶, the company was focussed on profiting from its status as a long established distributor in a number of key markets in Central and Eastern Europe with a specialised line of products which are imported and distributed from New Zealand, the US and EU countries. The next goal for the company was to expand some product lines and to consolidate the company's relationships as a supplier with a number of key breeding organisations in Central Europe. The existing Russian distribution is also intended to be

⁵⁵ According to the correspondence with Mr. Thompson in March 2008 the litigation is still on-going.

⁵⁶ Interview with G. Thompson in Budaörs, 06th July 2007

further expanded, in-line with the development of other opportunities in the Russian market, such as hoof care.

Concerning opportunities in the Eastern European area and Balkan states, Mr Thompson explained that the company had had mixed experiences. Opportunities in Romania turned out to be quite positive in some sectors (like pig and poultry), but they had been somewhat limited in others areas such as dairy farms. One of the reasons for this was that as yet there are not many medium sized herds in this part of the world. Mr Thompson was, however, rather disappointed by the market in the Ukraine:

Government tenders are very corrupt and the private business has been quite slow in coming. There have also been many problems with Government financed institutions not getting promised budget monies. We did run into the Orange Revolution but the economic recovery in the Ukraine has been much slower than it should have been.(Ibid)

Market opportunities both in Bulgaria and Croatia were considered by Mr Thompson as limited because of the small herd sizes and low cow population overall. The countries may offer other opportunities, however, such as food and tourism. Serbian agriculture is still not very strong economically and according to Mr Thompson, the best opportunities might be found in the north (Novy Sad area) but New Zealand companies will have difficulty selecting the right agents as government purchasing remains corrupt.

As a New Zealander living and doing business over 20 years in Central and Eastern Europe, Mr Thompson was also asked to share his thoughts on how he thought New Zealand's EU policy should look like in the enlarged Europe. He responded that:

I think that our approach to the new Member States should be largely bilateral in nature, emphasising bilateral mutual economic advantages that we offer each other and the scope that exists to expand those relations. From there we can lobby for assistance when an action is being taken at an EU level if we want to influence an EU wide outcome. (Ibid)

Mr. Thompson suggested more informal Minister-to-Minister contacts during visits by New Zealand Ministers to Europe as a way of securing outcomes that New Zealand wants in the EU. He believed that the detailed day-to-day work should be left to Embassies in each country to deal with at Government official and Minister level but for that New Zealand would need more Embassies in the new Member States:

Currently we have only the Embassy in Warsaw with some assistance from the Embassy in Germany which seems pretty pathetic when weighed against the investment that Australia puts into their relationships in this part of the world. (Ibid)

While acknowledging New Zealand's limited resources, Mr. Thompson felt it was frustrating to see opportunities going to waste or being developed to the benefit of other countries. Having a steadier Euro-New Zealand dollar exchange rate than the US dollar-New Zealand dollar exchange rate also made export calculations with the EU more reliable according to Mr Thompson. "Keeping many eggs in many baskets" was mentioned as another good reason for investing more in Europe.

11.3.4 Summary of Case Study

Consistent with the opinion of Mrs. Kovalszky from HUNZAG Kft, the Hungarian agricultural market was described by Mr Thompson as being "quite saturated", and "difficult for newcomers". There were few "opportunities for agricultural equipment" from New Zealand and there is a "demand for just-in-time supply" of "quality products from a local company". The "move from New Zealand based manufacturing" towards "manufacturing close to the market" is a possibility for cost effectiveness, especially as production companies within the EU can distribute their products free of duty and other trade barriers.

Tru-Test Ltd, similarly to the HUNZAG Kft, was an early bird in the Hungarian market (1988) and entered the agro-technology market of the region quite successfully in the 1990s (Czech Republic, Poland). The selling of these three companies to the American Bentley Instruments clearly indicates that the mother company in Auckland did not want to cope with the emerging legal and economic challenges of the region. According to the interview, the closure of the Trade New Zealand Office in the region and of the Embassy in Vienna sent a negative signal to companies back in New Zealand indicating that it was not worth investing into the region. As quotes from several survey participants showed earlier, through this negative example significant opportunity was lost in the region.

As the case study showed, under the leadership of the same kiwi manager who was leading the True Test subsidiaries, Bentley Instruments Inc. managed successfully to hold its acquired markets and opened further subsidiaries in Central and Eastern Europe. The company evaluated wisely that it would gain a comparative advantage by keeping the former region-manager with his experience and connections both in the region and to New Zealand companies against other emerging competitors. This example underlines the theoretical assumptions about the usefulness of ethnic intermediaries in accessing information and overcoming trade barriers in foreign markets. Although similar to HUNZAG Kft, Bentley Hungary Kft still keeps New Zealand products in its distribution range, and the assumption seems to be valid that any success is more due to the personal commitment of both company managers influenced by their special connections to New Zealand than to any organised marketing campaign supported by New Zealand companies or NZTE.

11.4 Aspiring Language Institute Ltd.

11.4.1 Background

The Aspiring Language Institute was founded in 1989 as a partnership and has been operating since 1991 as a limited liability company. Mrs. Judy Kollár⁵⁷ and Mr. Robert Zuch are the owners and operators of the company. In its first year of operation, the Institute offered Japanese language tuition for New Zealanders and from its second year, English for foreign students. The school started with 24 students, most of them from the target countries Japan, Switzerland and Germany.

Apart from teaching languages, the goal of the Institute is to bring together different nationalities and to foster a cultural understanding and awareness amongst them. It also attempts to make students familiar with New Zealand's culture and nature. To help to achieve these goals, more than 90% of the students live with New Zealand families during their studies.

Due to rising competition and operation costs in the 1990s, the company purchased a new building in 2001 that allowed the Institute to grow to a capacity of 70-75 students and to operate more efficiently. In addition to students from the former target countries (Japan, Switzerland and Germany) students now come from 35 different countries, including for example, France, Italy, Korea, New Caledonia, Saudi Arabia, Spain, Taiwan and Thailand.

As both of the Institute's owners came to New Zealand from Central Europe (Mrs. Kollár from Hungary, Mr. Zuch from Poland), they had a special interest in attracting students

⁵⁷ Interview conducted with Mrs. J. Kollár in Christchurch, on the 17th November 2005 and 02nd September 2007

from these and other Central European countries. The first students from these countries arrived at the beginning of the 1990s, but most were only able to pay for the flight and living expenses in New Zealand and not for the course fees as many were refugees or relatives of friends and acquaintances. The Institute has had just 20 students from Central and Eastern Europe over the last 15 years, and most of the fee-paying students came from the Czech Republic and Poland. Reductions in course fees were granted in individual cases, but are not intended to be a long-term solution.

11.4.2 Situation Analysis (2005)

The owners of the Aspiring Language Institute made market investigations and promotional visits to both Poland and Hungary in 2004 and 2005. According to their experiences they found that:

[A] lack of money is not an obstacle anymore to studying abroad. It is more a matter of attitude: People rather visit an exotic country than attend a language school abroad, especially if they cannot earn some extra money while studying.⁵⁸

Multinational language school chains have their representatives and agents in all Central and Eastern European countries and undertake massive advertising campaigns, thus playing the role of economies scale. This made market entry for smaller private institutions very difficult, especially for those from the other side of the world. While New Zealand has managed to market itself as an exotic country in other parts of the world, it has so far failed to do so in Central and Eastern Europe, and although people in these countries are aware of New Zealand as a pleasant country, it lacks the exotic value of other locations.

The market demand for language institutes has become more sophisticated: students demand to be placed in a truly “international class” instead of sitting together with people

⁵⁸ Interview with Mrs. Kollár on the 17th of November, 2005

who speak their own language. To meet this demand, big international language schools have attracted students from Central and Eastern European countries with courses that are either free-of-charge or have very low course fees. They are also able to pay special extra bonuses to local agents. Partly as a result of these factors, there are almost no small private language schools remaining in the UK or in the USA. In order to remain competitive, companies like the Aspiring Language Institute Ltd. have to look for new strategies and market niches to give themselves an 'edge'.

When describing her experiences over the past few years, Mrs. Kollár was of the opinion that Hungary's EU membership had brought more negative than positive effects for her language school. Although more of her students now come from Central and Eastern Europe, most of them are not able to pay the market price for the courses. The lack of a reciprocal Working Holiday Scheme between New Zealand and Hungary remains an obstacle and the reason why students prefer to go to the UK to study, even though course fees and living expenses are significantly higher there. The UK's decision to lift the 7 years moratorium on CEEC workers allows students to work while studying.

Plans for 2006

The institution intended to establish a scholarship for one Polish and one Hungarian student per year. In addition to maintaining their current markets (in particular Germany, Japan, Switzerland, Taiwan and Thailand), new countries will also be approached, including Oman, Saudi Arabia and Tahiti. The Arab Emirates are considered to be a special market. While the USA and the UK have lost their historically excellent reputations in most Arabic countries due to their international policies in recent years, New Zealand's positive reputation has instead risen due to its neutral and generally supportive policy, and

in particular its decision to abstain from involvement in the war in Iraq. This change in international political dynamics may turn the attention and trust of these countries towards New Zealand and might in turn help to boost the chances of success in this market in the future for a New Zealand language school.

Previously useful promotional tools like advertisements in newspapers, posters and pictures have also become less effective due to the increasing public mistrust in the genuine representation of the printed media. Beside maintaining an informative homepage on the Internet the future for effective campaigns seems to be in DVD presentations and as a consequence, the Aspiring Language Institute decided to develop its first DVD advert in 2006.

11.4.3 Follow-up Survey (September 2007)

Between 2005 and 2007, the company has had negative experiences in Hungary. No university students from Hungary could be convinced to enter a language course in New Zealand. As Mrs. Kollár argued⁵⁹, focusing on students and universities as a market target was based on false assumptions. Students within the EU have ample opportunities to receive scholarships of different lengths to study anywhere within the EU or even in Canada and the USA and they have direct or enhanced access to the labour market of the host country as well. The lack of the Working Holiday scheme between New Zealand and Hungary – as was already stressed in 2005 – is a real business obstacle for language schools in reaching potential clients in Hungary.

⁵⁹ Interview conducted with Mrs. J. Kollár in Christchurch on the 02nd September 2007

On the other hand, however, some adult couples (age 35-40) did arrive with the intention of visiting New Zealand and learning English, financed by their own resources. Arguably, this trend indicates that, while there is no Working Holiday Scheme or general work opportunity in New Zealand, wealthier couples who are mostly self employed or in a period of transitioning between two work places, can afford to stay in New Zealand for longer than two to three weeks. These type of visitors of course only comprise a fragment of Hungarian society, so a new marketing campaign focusing solely on these clients would not be very cost-effective.

Because of the considerable additional business costs caused by changes to the employment law in New Zealand (eg. increased minimum wage, and the establishment of a superannuation scheme) Aspiring Language Institute felt that it must focus its attentions on the Asian and Arab markets where clients can afford to pay higher course fees. The development of a DVD advertisement, which would have been used in the less-lucrative Central and Eastern European market has had to be postponed due to financial reasons. Mrs. Kollár, who stays in regular contact with her former home country, regretted giving up Central and Eastern Europe as a market opportunity. She did hope, however, that in her new position since 2007 as Hungarian Honorary Consul to New Zealand, that she can enhance the development of relations in some areas between the two countries.

11.4.4 Summary of Case Study

To some extent Mrs. Kollár's comments correspond with those of the wider survey from 2007. Consistent with her perception, the lack of a "Working Holiday Scheme" was perceived as a significant obstacle to the mobility of students by many other participants. Conversely, however, while Mrs Kollár saw little potential in the Central and Eastern

European student market, other participants continued to identify student mobility as a future potential growth area for New Zealand.

This case study was also an example for how expatriates mobilise themselves to reach back to their home countries as potential markets. It also showed, however, how important visibility is in the targeted market as well as how mobility hindering regulations (like lack of Working Holiday Scheme between New Zealand and Hungary) may undermine potential business opportunities from the beginning.

In addition to financial difficulties, the lack of motivation to visit New Zealand was also identified as a main obstacle by Mrs. Kollár. Despite the evidence from migration and mobility data about the readiness of young people and students in the 12 new EU countries to study abroad (selecting also wider destinations such as the USA or Canada), New Zealand does not seem to be a target destination even for those who could financially afford it. Although this may have many determinants, an undeniable fact is - similar to that in the case of the two agro-business companies - that New Zealand is not visible to them. As the case study showed, a single company will hardly have the financial assets to significantly promote New Zealand as a study destination. On the other hand, as the following case study proves, New Zealand foreign policy does not seem to be interested in promoting New Zealand as a student or research destination in Hungary, a tendency that might translate to the whole Central and Eastern European region.

11.5 Study Tours Ltd.

11.5.1 Background

Study Tours Ltd. was established in March 2005 by Mr. Miklós Gerely and Mr. László Kotán. At the time of the interview Mr. Gerely⁶⁰ worked full-time in the company and Mr. Kotán⁶¹ worked part time. The goal of the business was to act as an agent for New Zealand universities, language schools, travel agencies and sailing companies in the target market, Hungary.

11.5.2 Situation Analysis (2005)

For the first year, Study Tours Ltd.'s primary goal was to establish connections with different service providers in New Zealand and to identify potential business partners. In 2005, the main focus was tertiary education providers (universities) and language schools, and their first connections were established with University of Canterbury and the Aspiring Language Institute. The company also established a website and in 2005, Mr. Gerely undertook a marketing campaign in several Hungarian universities to attract students to come and study in New Zealand.

Mr. Gerely summarised his experiences of this trip as such:

*The general opinion in Hungary is that New Zealand is a beautiful country, but I could not find any language school agent or travel agency that wanted to or take the courage to invest money and energy in a business with New Zealand. In their view it has become much cheaper to attend any course within the EU and you can apply for scholarships for nearly any kind of education. This is not the case in New Zealand.*⁶²

After his presentations at universities, many students approached Mr. Gerely questioning whether there were scholarships for overseas students in New Zealand as although they

⁶⁰ Interview with M. Gerely conducted in Christchurch on the 10th of November 2005

⁶¹ Interview with L. Kotán conducted in Christchurch on the 12th of November 2005

⁶² Interview with M. Gerely conducted in Christchurch on the 6th of January 2006

liked the country and wanted to experience a more practically-orientated education system than the European one, they needed to finance their stay in New Zealand.

Mr. Gerely saw the most opportunities for overseas students to be at PhD level where the students would spend part of their studies in New Zealand on a formal University-to-University exchange, as the course fees would be the same as for domestic students in this situation. On the other hand, there was too much difference between the PhD system in Hungary and in New Zealand, so students would have challenges getting their time spent at New Zealand universities recognised. Thus, the lack of compatibility between the education systems and the lack of scholarships or alternative possibilities of earning money are the most important obstacles to furthering the relationship in the area of graduate education and training. On the other hand, Hungary was also one of 29 countries that adopted the Bologna Declaration of 19 June 1999 in order to make the higher education systems in Europe converge. This means that by the end of 2010 compatibility between the Hungarian and New Zealand higher education system should not be a problem.

Another phenomenon Mr. Gerely experienced on his trip to Hungary was that an increasing number of people approached him regarding emigration to New Zealand. He saw more chances to sell New Zealand as a relaxed and healthy place to live long-term than as a place to study short-term. Mr. Kotán also stressed the problem of proper “timing” between New Zealand and Hungary education institutes. In Hungary, they are used to working in a half-yearly or more often yearly cycle and students studying over in New Zealand had to sit their exams either in June/July or in December/January before they could go on holiday, which tended to clash with the New Zealand semester structure. This was one of the reasons why the company did not expect students for its first year.

Marketing from a distance and time management issues caused further challenges to the businessmen in 2005.

Goals for 2006

The basic goals of the company for 2006 were to refine their marketing strategy and to attract at least five Hungarian PhD students to New Zealand.

11.5.3 Follow-up Survey (September 2007)

Mr. Kotán left the company in the first half of 2006.⁶³ The main reason for his departure from the company was that there had been not as many opportunities available as he had anticipated at the time of starting the business. After the first year of the business he evaluated the market assumptions that they had made earlier as being too optimistic: one major obstacle of winning the targeted group of university students was once again the lack of the “Working Holiday Scheme” between New Zealand and Hungary. Contrary to the situation in New Zealand, as noted already students within the EU have ample opportunities to receive scholarships of different lengths for studying anywhere within the EU and have direct or enhanced access to the labour market as well. Mr Kotán was of the opinion that there are better opportunities for both countries with other closer countries.

Mr Gerely ran the business until the end of year 2006.⁶⁴ The marketing campaign in Hungary promoting a network of four New Zealand language schools in 2005 did not bring the expected results, however: no students could be convinced to study in New Zealand. According to Mr. Gerely the lack of turnover and the costs of the failed marketing campaign, which were only partially covered by a NZTE subsidy, forced him to close the company at the end of 2006.

⁶³ Interview with L. Kotán in Christchurch on the 5th September 2007.

⁶⁴ Interview with M. Gerely in Christchurch on the 1th September 2007

11.5.4 Summary of Case Study

Allowing for the fact that not all factors contributing to the bankruptcy of the company were necessarily disclosed to the thesis author, this summary draws conclusions from the market experiences of the entrepreneurs which are more relevant to the thesis. Contextualising this case within the Ethnic Network Theory, this business attempt was initiated by expatriate Hungarians living in New Zealand. Despite being unsuccessful, the case revealed some useful lessons for similar attempts.

When starting a new company, undertaking market research in a foreign country is a costly endeavour for which additional funds from other sources are required. The participation of NZTE as co-financer of the project can be evaluated as a positive sign of national interest towards the region. Although combining market research with the promotion of New Zealand when meeting students seemed to be an effective idea, Tourism New Zealand from London did not see much relevance to getting involved or to provide the organisers with promotional material - except two posters – on a larger scale. This indicates that Hungary, as presumably for all the new EU Member States, is still not evaluated as a good potential source of tourists for New Zealand.

The findings of Study Tours Ltd concerning Hungarian tertiary students as a market potential are similar to those of the Aspiring Language Institute Ltd, in that the market was evaluated as being too difficult to penetrate because of three main reasons: strong international competition, high costs associated with living and studying in New Zealand (lack of Working Holiday Scheme or similar “study and work” opportunity), and lack of awareness of the country.

On the other hand, more opportunities were seen to “sell New Zealand as a relaxed and healthy place to live” for the purpose of emigration than for study.⁶⁵ Considering Hungary’s national problem of over-education (e.g. cleaners require certificate of final high school examination, receptionists and secretaries a tertiary degree based on 3-4 years of study to find employment), and lack of skilled workers (“company workers buses” transport skilled workers from the Slovak Republic to West and North Hungarian companies on a daily basis), it might be worth playing more attention to this alternative.

11.6 Summary: Evaluation of Case Studies

First this chapter seeks to summarize the main empirical findings of the case studies in conjunction with the focus of the thesis; second it puts these in context with the theoretical frameworks. Along with the research questions the main focus of the thesis builds on the investigation of opportunities that have resulted from Hungary’s EU membership. In this context the case studies provided special insights into the difficulties of the agricultural and educational market, into New Zealand’s low visibility in Hungary, and in agreement with survey results they reflected on the shortages in networking with domestic New Zealand companies and diplomatic/institutional Governmental support.

The opinions of respondents concerning the additional opportunities created by Hungary’s EU membership in all four cases were rather cautious in 2005, and had become more negative by the time of the second interviews in 2007. The negative experiences in the agro-technologic market of the two companies correspond with the core findings of the surveys conducted in New Zealand and Hungary in 2007.

⁶⁵ Interview with M. Gerely in Christchurch on the 1th September 2007

As exploring the Hungarian educational market is still in its early days, responses from the questionnaire about this market segment were in general more optimistic than the real experiences of the two Christchurch companies. According to the case studies, it is increasingly difficult to 'make money' in Hungary from a distance. Being 'visible' and always 'reachable' for clients seem to be the basic conditions for entering the market. A careful investigation of the target clientele group suggested that the usefulness of a quality product/service (either agro-technological or educational) is more important in the Hungarian market than is the image of the product's origin. That is to say, if a milking machine from Holland is delivered just in time with permanent service facilities, clients will not wait for a similar one to arrive from New Zealand. Similarly, attending an English course in the UK or even in Budapest at a large international language school with a good reputation will be favoured over a language school far away in New Zealand, since it comes associated with greater living costs and no opportunities for earning money while studying.

While neither the Aspiring Language Institute Ltd nor the Study Tours Ltd saw more potential in winning students from the other Central and Eastern European countries, both HUNZAG Kft and Bentley Hungary Kft did foresee some possibilities worth considering in Romania, Bulgaria and Russia, as well as in the other Balkan states. The experiences of the agro-technology companies indicate that for New Zealand viewing the new EU Member States as an integrated part of the EU is still not common. Although the economic problems in Hungary (partially characteristic for the region as well) like high unemployment, relative low buying power, saturated agricultural supply indicate difficulties for selling products, it does not mean that is disadvantageous to set up

manufacturing companies in the region to supply wider Europe. (For example, based on a two year detailed market research of the region, the establishment of the Fletcher subsidiary in Várpalota (Hungary) in 2007 demonstrated the competitiveness of the current Hungarian incentives for establishing a ‘green field investment’ in the region, despite national budget difficulties.)

Concerning the experiences of the companies targeting the education and tourism sectors, a key aspect was New Zealand’s low visibility in Hungary. Addressing this phenomenon, governmental agencies often pointed to comprehensive country specific information available about New Zealand in the Internet. But where should the interest come from in Central and Eastern Europe to put ‘New Zealand’ into the search engine? While – according to survey results and case studies - the New Zealand Diaspora in Hungary and the Hungarian Diaspora in New Zealand evaluated this as a problem, the Speaker’s Tour debate clearly showed that it is not perceived as such by the New Zealand public. As suggested by the media New Zealand does not need to be visible in the new EU Member States.

Diasporas can, according to the Theory of Ethnic Networks, positively influence the trade between two countries and the question is how the findings of the case studies correspond with this assumption. First of all in all four cases a member of the Diaspora was the connection between the two countries, either trying to sell goods produced from their country in the country they are currently living (agricultural products) or trying to attract people to services in their home country (language education). As was shown in the examples the success of ethnic networks is not dependent merely on the skill and connections of those involved. It is influenced largely by the quality of interaction of home

governments with their Diasporas as well as by legal mobility and labour restrictions in both home and host countries. The Diaspora is likely to be more successful if the agreements and interactions between the two countries are preparing the ground for it.

Having thus received insight into the experiences of four companies who are operating between New Zealand and Hungary, the penultimate chapter of the thesis compares the results of the questionnaires and case studies with the results of the macro-level research, and draws conclusions.

Chapter 12

CONCLUSION

12.1 Introduction

At the outset of this thesis, Scott Alexander Young was cited as saying “Hungary and New Zealand have more in common than might be first apparent. (...) Maybe they could find some common ground to work on...”⁶⁶ While Young made these assumptions based on his experiences as a New Zealander living in Hungary, the debate on the Speaker’s Tour in March 2008 revealed that both the New Zealand media and public see any relevance for more connections to either Hungary or to other new EU Member States as superfluous and absurd. Although – despite the pressure of the media - the Government did not alter its decision to “outreach” towards these countries, it seemed unable to clearly articulate why this outreach is important for New Zealand, leaving the public with a one-sided perspective.

The goal of this study was to move beyond these different sights to provide an academic exploration from New Zealand’s perspective about whether New Zealand’s long-term national interests in the EU can be strengthened through a more intense relationship in certain areas with Hungary, chosen as a case study from the new EU Member States. Following a summary of the research problem, this chapter draws together the findings of the thesis in relation to the theory, literature, and practice including suggestions for further research.

⁶⁶ Scott Alexander Young, New Zealand film producer and director, research participant, Budapest, July 2007

12.2 Summary of problem setting

In addition to the personal interest of the researcher resulting from being ‘at home’ in both countries, there are also more significant grounds to justify the necessity for research on two such distant, small countries.

In 2004, when ten new Member States joined the EU, the New Zealand Ministry of Foreign Affairs of Trade acknowledged the discrepancy between the political and economic importance of the European Union for New Zealand and between “New Zealand’s minimal engagement in Central and Eastern Europe” (Europe Division 2004, p.4). The academic research on the possible effects of EU enlargements on New Zealand, as discussed in the Introduction and in Chapter 2, concluded that New Zealand needed to strengthen its engagement in the new EU Member States in order to avoid the danger of becoming marginalised in wide ranging EU decisions. The importance of the EU relationship for New Zealand generally, the low number of existing academic publications, and the nearly non-existent, or as the example of the Speaker’s Tour debate showed deteriorating media coverage in New Zealand regarding matters in Central and Eastern Europe, indicated the need for studies to explore the areas of common interest between New Zealand and the new EU Member States.

The presented thesis is one of the first attempts to bring New Zealand and a new EU Member State closer to each other. The exploratory nature of such a study necessarily results in many insights and challenges in the research process. Investigating a seemingly important but rather unexplored area is always adventurous. As such, challenges might arise, however, in the availability and accessibility of primary data and this research was not devoid of such problems. Access to the diplomatic summaries of high-level meetings

between New Zealand and Hungary were only partially available, and most of this data came from the Hungarian side. When identifying prospective interview participants, extensive efforts were made to reach a diversity of respondents, including using sources such as embassies, consulates, trade associations, ex-patriot clubs, company registers, newspapers, and so on.

12.3 Theoretical Reflections

The thesis criticized traditional Small State Theory on three accounts: first, that it assumes a static small state policy exists over time; second, that it under values domestic interests in the foreign policy building of small states; and thirdly, it neglects the importance of human determinants in the successful foreign policy of small states. The findings in both cases supported this critique as both New Zealand and Hungary have changed their EU policy as part of their foreign policies significantly over the last thirty years.

New Zealand made these changes after the UK joined the European Economic Community in 1973 and a second shift can be traced back to 1988 when the UK decided not to ‘battle’ for New Zealand’s interests at EU negotiations. At the same time, New Zealand became a presence in Hungary and Central Europe generally as financial aid provider. New Zealand’s EU policy in these decades had a strong focus on trade – which is a strong domestic interest – whereas the New Zealand – EU Joint Declarations of 1999, 2004, and 2007 signalled a new, more comprehensive EU policy responding to wider global trends and challenges.

Hungary’s EU policy changed first in 1968 (‘Technical Agreement’ with the EEC), then in 1988 (‘Trade and Cooperation Agreement’). While the goal in the 1960s was first to

establish contacts with the West, the 1980s EU policy – similar to New Zealand's – became largely trade driven. Hungary's application for EU accession in 1994, however, meant pursuing not just trade related goals but also political, security and socio-cultural goals. Finally, once becoming an EU Member State, Hungary once again changed its foreign policy in certain areas. These and other examples in the thesis showed that both New Zealand and Hungary followed a rather domestically-driven foreign policy, however, at times it was necessary to undertake different internal changes (e.g. law harmonisation) to achieve foreign political goals.

The relatively consistent composition of both New Zealand and Hungarian delegates in different EU negotiations also demonstrated the importance of human determinants in pursuing a successful foreign policy. Small countries are often at a disadvantage in such negotiations and cannot afford to fail on the account of their diplomats. The importance of appropriate expertise at these negotiations is particularly important in the case of small states because owing to a much more limited pool of expertise, they cannot easily substitute their experts, and because the economic or military power needed to offset the effects of unsuccessful negotiations is often non-existent for smaller nations.

In keeping with the assumptions of the Theory on the Role of Ethnic Networks in International Trade, the interviews and survey results showed that people-to-people relationships played a significant role in the development of relations between New Zealand and Hungary. The trade generating effect of bilateral networking amongst New Zealand and Hungarian immigrants and business people was tangible in the 1980s and early 1990s. Participants in the surveys of 2005 and 2007, however, complained about the contemporary lack of social and business networks amongst those involved in bilateral

relations between New Zealand and Hungary. According to the Theory, immigrants/expatriates may play a significant role as intermediaries between foreign agents and domestic networks as well as facilitating trans-national technology and knowledge transfer. While survey results and interviews conducted over the research period strongly supported this theoretical position, they also pointed towards new, up-to-now less theorised areas.

One question worth investigating are the political, legal and societal conditions, which may foster or hinder the effectiveness of ethnic networks. It was shown that mobility and working restriction are very counter-productive, especially for businesses based on the movement of clients from large distances (see the examples of student mobility and tourism in the case studies of Study Tours Ltd and Aspiring Language School.)

A second criticism was the one sided assumption of ethnic networks as groups of merchants between host and home countries. This approach might suggest designers and decision makers of immigration policies should prefer ethnic groups with larger trading and FDI volume in front of others. To avoid neglecting other potential direct or indirect contribution of ethnic networks to the economy of a country, the author suggested to broaden the perspective and to see ethnic networks as different networks within a whole Diaspora. This approach assumes the usefulness of 'non-trading' members of ethnic networks for a society in different areas like, but not restricted to, education, diplomacy, science, country-image promotion, as well as in fighting poverty.

How to utilise a nation's Diaspora to contribute to the home country's economic development has become an important question in reaction to the global 'brain drain'

phenomenon of the last decade. As empirical studies showed states follow different strategies under the direction of different governmental agencies (e.g government office in Hungary, Ministry for Economy, Immigration Office and/or Ministry of Labour in New Zealand.) More investigation of these different approaches in different countries could assist theory building, provide better insight to policy makers and avoid the ad-hoc introduction of controversial policies at the same time.

In addition to the empirical relevance of the applied theories as discussed before, an attempt is made to enhance the applicability and reliability of traditional Small State Theory and the Theory of Ethnic Networks. Putting the core statements, strengths and weaknesses of both theories in comparison with each other the commonality in some areas becomes obvious. It seems especially evident, that the shortcomings identified in the Small State Theory are partially covered by findings of the Ethnic Network Theory, which indicates a possible synthesis between them which is worth investigating closer.

As discussed in more detail under the section Theory the main characteristics of small states' foreign policy behaviour are generally grouped around the areas of security, foreign trade and international system. The Theory on Ethnic Networks shows that members of ethnic networks can be very effectively utilized as intermediaries in transnational trade relations. Our critique suggested that the for trade perceivable positive effect of ethnic networks might also be valid for networks across the Diaspora in other areas, such as intercultural relations, publicity, or scientific cooperation.

Next these statements under the light of the other two important foreign policy areas of small states, to security and international relations are reflected upon. If either national or

international security is at stake, the assumption seems not unreal that both different ethnic networks in the host country as well as its own Diaspora abroad might enhance cost effectively diplomatic efforts as opposed to military interventions. It might be worth investigating how the potential of ethnic networks and Diasporas has been utilized across the world in resolving military or security related conflicts. Given the limited financial resources of small states, the potential that lies here is not to be underestimated.

The same seems to be valid for the limited participation of small states in the international arena. While, especially in the case of New Zealand, the question of where to open/close/relocate/merge/cross-credit foreign posts seem to be an ongoing agenda with different outcomes, providing visibility and connections through cost effective alternative means like people-to-people relations of ethnic networks and Diaspora seems to be underutilized. Thus connections and information available at diplomatic levels might be greatly enhanced by connections and information of ethnic networks both the area of security and international relations. On the other hand, as this research showed, the effectiveness of ethnic networks might also be greatly supported by co-coordinated foreign political and diplomatic means.

These assumptions point to the relevance of combining the two theories into a new theoretical approach aiming at a discussion on the role of ethnic networks in the foreign policy of small states, built on the three pillars of trade, security, and international relations. The term 'Ethnic Networks' includes both the networks of different ethnicities within a host country as well as the own Diaspora of a country living abroad. As a first attempt we give this new approach the somewhat long name of 'Theory on the Role of Ethnic Networks in Small States Foreign Policy'.

New Zealand seems to be in an especially advantageous position to test this theory with empirical results. It is not just small and geographically distant from the rest of the world but as an immigration country its inhabitants are from all over the world. On the other hand, as discussed in the thesis in more detail, it also has an around 850 000 people strong Diaspora abroad. The assumption seems not to be unreal that other small states might be interested in conducting similar research as well, contributing to an international data pool for which New Zealand, as the initiator of such a research, may play an important co-ordinating role.

In conclusion, to enhance the applicability and reliability of traditional Small State Theory in our contemporary world the findings of this thesis suggest the need to pay special attention to the factors of time (particularly global changes), human determinants (role of special diplomatic personalities, immigrant and expatriate networks), and domestic interests when assessing small states' foreign policies. The application of the Theory on the Role of Ethnic Networks should follow a more inclusive approach to avoid the marginalisation of the Diaspora's non-trading members of potential value. As a next step, the author encourages further research into the effectiveness of different Diaspora policies under different circumstances like "all-inclusive", "elitist", "relocating" or "non-relocating" strategies.

12.4 Relationship to Literature

The literature review encompassed three broad areas: literature on New Zealand–EU relations, literature on Hungary–EU relations, and literature on New Zealand–Hungary relations. Taking the special focus of the research on New Zealand and Hungary into

account, the findings showed that while some academic work in both countries exists, this concentrates on a few specific areas (like agriculture) in both countries. More comprehensive investigations in relation to New Zealand and the new EU Member States tend to address Hungary rather as part of a largely (mistakenly) homogenous group ('new Member States') or somewhat more distinct by discussing it within the context of the 'Visegrád' states. Diplomatic material in both countries focused primarily on bilateral trade statistics and only mentioned other types of relationships (e.g. between universities) sporadically.

Based on its previous versions of 1999 and 2004 the 2007 Joint Declaration between New Zealand and the EU (and as such encompassing Hungary) strengthens the necessity to move from a sole focus on trade relations to other areas of mutual and global importance between the negotiation partners. Beside traditional areas like co-operation at different multilateral forums (UN, WTO) and in different areas of global importance (security, development, environment, innovation) which includes mostly just a certain expert group of nations, the contracting partners also agreed to "foster mutual knowledge and understanding between their peoples and of their cultures".(2007, p.3) As for the debated rationale behind the Speaker's Tour this statement clearly shows that cutting ties to the new EU Member States on the account of "economic unimportance" would violate this declaration. Considering the limited awareness to the EU's importance for New Zealand, the statement from page 9 of the Declaration might have been better placed on the front cover to attract more attention: "The European Union is currently New Zealand's second largest trading partner; New Zealand ranks 50th in the European Union's external trade." As for the future, representatives of the media might find themselves also on a financed tour to the new EU Member States, as the Declaration intends to promote "exchanges

between media organisations, in particular for journalists.”(2007, p.15) And for those journalist who stay at home “The Commission will encourage journalist schools and the training departments of various New Zealand mainstream media organisations to include training modules on reporting on contemporary Europe.” (Ibid)

Beyond answering the research questions, the goal of this thesis was to contribute to the exiting academic literature by filling the gap about Hungary in New Zealand from an insider’s perspective. The thesis highlighted importance of findings from Hungarian academic literature (e.g. the Hungarian transition period and EU accession), which are not necessarily consistent with ‘Western’ studies. Making these studies available for New Zealand students and academics should contribute to a better understanding of the background and motives of the Hungarian domestic and foreign policy.

The chapters regarding the development of relationship between New Zealand and Hungary have provided an overview of the interaction, problems, and opportunities of the relationship across different sectors as a first academic attempt. Similar country specific studies might reveal whether New Zealand has a comparative advantage or special strength in some of the other new EU Member States in certain areas, or whether the problems or difficulties that were experienced in relation to Hungary are in fact unique. Linking the findings of academic literature to practice could contribute to designing a more carefully thought-out plan for New Zealand’s Central and Eastern European policy which could be based on real circumstances rather than outdated understandings.

12.5 Practical Relevance of Findings (Implications)

This chapter summarises the core research findings by answering the research questions and discussing their broader relevance and implications for New Zealand. The introduction to this thesis raised a number of questions concerning the development of relations between New Zealand and Hungary before and after the 2004 EU enlargement and the potential areas of collaboration to consider. As argued earlier, the European Union plays a special role in the foreign policy of New Zealand as well as of Hungary. To provide a better understanding of both countries' motives and expectations towards each other the research first investigated their individual relationships to the EU.

How have relations between New Zealand and the EU developed until recently?

Unlike in the period between the 1970s and early 1990s, New Zealand's interests in the EU are not now limited to merely trade related concerns. While enhancing New Zealand's exports to the EU is still a core issue, collaboration in areas like research, security and peacekeeping, international aid and environmental protection have also become important (see *2007 Joint Declaration between New Zealand and the EU* discussed earlier). The research showed, however, that both media coverage and public education in New Zealand have scarcely reflected the EU's importance for the country. Since the establishment of the National Centre for Research on Europe at University of Canterbury and more recently the European Union Centres Network, the level of academic research in New Zealand devoted to EU issues is increasing, however, research with a focus on new EU Member States remains rare and sporadic.

According to interviews with New Zealand diplomats and other expatriate New Zealanders, providing the public with basic geographical, historical and cultural

understandings of the EU is inevitable for New Zealand: a country often described at a governmental level as one with a shared European value system. In this context it is important to make reference to the goals of the new 2010 New Zealand Curriculum within the area of Social Sciences:

Through the social sciences, students develop the knowledge and skills to enable them to: better understand, participate in, and contribute to the local, national, and global communities in which they live and work; engage critically with societal issues; and evaluate the sustainability of alternative social, economic, political, and environmental practices.
(http://nzcurriculum.tki.org.nz/the_new_zealand_curriculum/learning_areas/social_sciences)

These goals are to be achieved by learning “[a]bout people, places, cultures, histories, and the economic world, within and beyond New Zealand.” (Ibid.) On the other hand, while Mathematics is a compulsory core subject from year 1 to 13 with clear guidelines on achievement expectations, according to the Curriculum Social Studies lessons are only compulsory to the end of year 10. From years 10-13 related social sciences like Geography, History, and Economics are defined merely as optional subjects at a variety of levels. Thus, students may stop learning anything about their society and the world during the important formative years of becoming young adults and are at the same time expected to be able to understand and cope with it. Is this not a discrepancy? – see related suggestions in Chapter 12.6.

How have relations between Hungary and the EU developed until recently?

The investigation of the development of relations between Hungary and the European Union provided insights not just into the economic dimension but also the historical importance for Hungary of becoming a member of the EU, based on its identification with the European value system stretching back over 1,000 years. While the country perceived itself – as did other Central and Eastern European countries – as European during the era of the Cold War, over 40 years of separation between Eastern and Western Europe made the

mutual approach after the collapse of the communism economically as socially challenging.

Important details have been identified concerning the economic and political transition period which, according to mainstream Hungarian sources, started before the proclamation of the more-party system and the Republic of Hungary in 1989. Hence, the Hungarian literature refers to the period after 1989 as the consolidation period of the new system. Hungary saw no alternative to future EU membership and this determined the development of its economic and legal system from 1989 onwards. The negotiation process with the EU for Hungarian EU membership – similar to that of the other co-applicant states – stretched over several years. This secured, however, enough time to implement the necessary institutional reforms in the EU as well, that were essential for a successful enlargement to a union of 27 European states.

To comply with the Copenhagen Criteria Hungary had to introduce a special Convergence Programme in 2006 to reduce its large state budget deficit. While the long term advantages of this policy are positive from an economic perspective, the question remains how and for how long society can cope with the short-term disadvantages (such as higher inflation, or cuts to the social security system). This social response will become evident after the next parliamentary elections due in the first quarter of 2010. Another important requirement still to be fulfilled by Hungary is the entrance into the Euro zone, which according to the latest 2008 governmental estimations will be around 2011-2013.

What are the main features of Hungary's political and economic position and interests within and outside the EU?

Having a good knowledge and awareness of Hungary's contemporary position and interests in the European Union may also provide some useful information and connection points for aspects of New Zealand's foreign policy. While Hungary was a keen advocate of the CAP reforms before its EU accession (working alongside New Zealand in the Cairns Group), her interests shifted after becoming an 'insider' of the EU; that is, becoming a net beneficiary of EU policy. Hungary maintains an interest in the reform of the CAP, however, this no longer entails the total elimination of the agricultural support system. While the country supports the reform of direct subventions long-term, it also wishes to see the strengthening of the EU budget to devote greater resources to the improvement of living and working conditions especially for disadvantaged rural regions. In terms of the Cohesion Policy specifically, the Hungarian position has preferred sought its preservation to help balance the economic and social differences between stronger and weaker EU Member States.

Hungary is a keen advocate of further EU enlargement towards South-Eastern Europe and the Balkan states, and the country also supported the idea of the European Constitution and a more cohesive common foreign policy. On the other hand, its own foreign political approach has also demonstrated the importance of strengthening connections with non-European countries to help counter-balance a strictly EU focus.

How did relations between New Zealand and Hungary develop prior to 1st May 2004?

Turning to the core focus of the research – the development of relations between New Zealand and Hungary – examples throughout the thesis have shown that despite the

different historical, political and economic backgrounds and the physical distance between the two countries, cooperative ventures have been established as well. Between the 1970s and 1990s, a promising beginning was made in terms of joint New Zealand-Hungary projects in the specific areas of diplomacy, agriculture, trade, research, and education. As the interviews and survey results revealed, people-to-people relations, social and business networks contributed significantly to these successful developments. According to the perception of ex-diplomats and business people of those years, there was a much stronger interaction between diplomatic and trade representatives as well as entrepreneurs than is the case today.

Changing legal and economic structures and the issue of land ownership in the second half of the 1990s caused increasing difficulties for agricultural supply companies to operate in Hungary, including those from New Zealand. The research participants involved in trade and diplomatic relations between New Zealand and Hungary over this period criticised the New Zealand governments' decision to withdraw diplomatic and trade representations from the Central and Eastern European region. These steps were also seen to contribute to the weakening of network ties between expatriate New Zealanders in Hungary, as well as ultimately limiting their ability to act as intermediaries for new businesses or other types of connections between New Zealand and Hungary.

How have relations between New Zealand and Hungary developed after 1st May 2004?

Research was undertaken both at the macro- and micro-levels to provide a comprehensive picture about the state of the relationship between New Zealand and Hungary. Corresponding to the research process, conclusions are drawn about the areas diplomacy,

trade, tourism, research and education, as well as about New Zealand's visibility in Hungary.

a) Diplomacy

While, in relation to the size and relative importance of the countries to each other the number of diplomatic visits between New Zealand and Hungary can be evaluated as satisfactory, these contacts brought less 'tangible' results. The failure to sign the Working Holiday Scheme and the Agreement on Social Security was primarily Hungary's error. Many research participants addressed its negative consequences for business, education, and tourism. In the case of the Working Holiday Scheme Hungary seems bound to its position due to the necessity to comply with EU legislation until 2011, or until Hungary withdraws its own restriction on the free movement of the labour from other EU Member States. In the meantime a unilateral opening to attract students or young tourist to New Zealand might be worth considering (see Recommendations in Chapter 12.6).

Considering diplomatic relations at an operational level, non-governmental research participants perceived the New Zealand Embassy in Berlin as already too busy to make New Zealand more present in Hungary. Closely related to this perception is the question of the situation of the New Zealand Diaspora as well as that of the New Zealand Honorary Consul in Hungary. The New Zealand Diaspora in general felt that despite having offered information, connections, and recommendations to the New Zealand Government for years, only a few have been utilised. Promoting New Zealand more efficiently in Hungary by solely relying on the Honorary Consulate seems to be less effective, because of the time and budget restrictions noted previously. For ideas on how to support the consulates more cost effectively see Chapter 12.6.

b) Trade

In terms of the current opportunities for growth in the relationship, the survey results, interviews and economic data suggest that conducting business in Hungary has become more difficult since EU accession. Small and middle-sized enterprises in particular, that do not have a strong supporting mother company to provide financial or marketing assistance, have difficulties trying to survive in such a highly competitive market. Exporting from New Zealand to Hungary was generally evaluated as having little profit unless it was done with very large quantities or a particularly unique product. On the other hand, establishing production companies (green field investments) could be highly lucrative because of different tax incentives. In this way, a company can manufacture products for the EU market, which can subsequently enter that market without trade barriers, as was the case for Fletcher Buildings Ltd., for example.

The market for international language schools was evaluated as saturated. Due to the lack of a 'study and work' programme and without a joint New Zealand promotional campaign, the prospects to sell New Zealand as an educational destination in Hungary appeared highly constrained. While research participants urged more involvement of NZTE in the region, the office in Milan was of the opinion that because of the present economic difficulties in Hungary (and in Central and Eastern European region in general) it is more relevant to concentrate on the still lucrative West European markets. That Hungary was totally absent from the NZTE's radar is illustrated by the fact that the homepage of the institution showing its foreign posts with accredited countries does not list Hungary anywhere, as mentioned earlier. It might be a reason why participants involved in bilateral trade between the two countries assumed Hungary was still accredited through Milan.

Although the Hamburg office saw more opportunities in the new EU Member States, it does not foresee an official campaign to promote New Zealand in the region.

As trade figures showed, an additional trade office with a sole focus on Hungary cannot be supported. Widening the horizon, however, especially towards the South and South-East from Hungary we find a further 8 countries with the future ambition to join the EU. The EU already provides considerable financial assistance for these countries to purchase needed technology. Will New Zealand replicate its mistaken approach of not making any coordinated attempt to enter these gradually opening markets, as it did for the Visegrád States of Poland, Czech Republic, Hungary, and Slovakia in the 1990s? As research results show there was a clear difference between the perception of the New Zealand and Hungarian Diasporas (“less trade is better than no trade at all”) and that of the NZTE, which might be best summed up as “no trade is better than less trade”. As other Western investors establish themselves successfully in the at times empty markets, the danger is not minor that New Zealand will again be left out from the emerging markets in the Balkan states that are in urgent need of infrastructural and agricultural development.

c) Tourism

The New Zealand Tourism Board in London is comparatively inactive in the Central and Eastern European region and does not support any targeted extra promotion: the focus in Europe is on the main inbound travel markets of the UK, German speaking countries, the Netherlands and Scandinavia. Due to this lack of promotion and the already mentioned ‘Working Holiday Scheme’ the number of visitors between New Zealand and Hungary is minimal. This corresponds with the survey results about New Zealand’s low visibility among the Hungarian public, and as was set out in the thesis in more detail. Considering

the wider Central and South-Eastern European region the New Zealand position seems to be that because from these economically weaker countries no large numbers of tourists are expected at present, why should their inhabitants hear about New Zealand at all? The section on New Zealand's visibility provides a rebuttal to this.

d) Research and Education

While scientific co-operation especially in the areas of dairy, livestock and deer farming was quite strong in the late 1980 and 1990s, and there remains a small scale exchange in the area of music education, no further areas of bilateral educational or scientific relations were identified at present. The most recent attempt to revitalise bilateral relations was undertaken by the Hungarian Saint Stephen University by submitting a summary of its research activities to the New Zealand Educational and Science counsellor in February 2008 through the New Zealand Berlin Embassy. Although universities from both countries expressed the desire for stronger co-operation between certain departments in the survey, financial resources for students in the form of scholarships, grants and the lack of the Working Holiday Scheme were identified as significant obstacles.

e) Visibility

The question of New Zealand's visibility (and partially that of Hungary's) was one of the most debated key terms throughout the research process. The results of the surveys, interviews, and newspaper reviews showed that apart from learning about New Zealand as a country of spectacular natural landscapes, other areas like diplomacy, trade, research, sport, tourism, education, and culture have very low visibility in contemporary Hungary.

The New Zealand Government's foreign policy acknowledges the necessity of being visible in the new EU Member States to maintain New Zealand's goals in the EU, and a relative good frequency of bilateral diplomatic visits between New Zealand and Hungary was maintained in the last decade. As critical comments made by survey participants showed, however, these visits seldom brought perceivable results at operational levels, with the exception of the mutual Visa Waiver Agreement in 2000. Combined with poor communication both countries appear basically invisible in each other's public perception or – what sometimes may be more disadvantageous – the existing perception is often misinformed and deteriorating (e.g. the perception of New Zealand's' joint foreign policy with Australia).

Considering the minimal budget devoted to the operation of New Zealand's Honorary Consulate in Hungary (NZ\$5,000 annually), the consul can hardly undertake much more than the necessary administrative tasks in their free time outside family duties and main occupation. Although with a much larger annual budget (around NZ\$4.5m) and with 4 seconded and 10 local staff, the Berlin-based New Zealand Embassy appears less visible in Hungary, a situation that might well be similar in Slovakia or in the Czech Republic. (figures from MFAT, Department of Finance, 2008) The author did not receive an answer from the Embassy whether this low visibility is related to the question of budget/staff or whether the Embassy perceived the present level of Zealand's visibility as adequate.

Further, there is a discrepancy between the goal of the New Zealand Government to be visible in the new EU Member States and the seeming disinterest of its main foreign representative agencies such as the NZTE, NZ Tourism Board, as well as New Zealand's Science and Education counsellors. Their positions suggest the relative uselessness of

diplomatic visits for the public: if neither trade, tourist, nor scientific relations are worth considering, why engage in diplomacy at all?

The agencies mentioned above, together with the media, seem to view the new EU Member States still as ‘many, poor developing countries in the Eastern part of Europe’ that are not worth approaching. This view fails to appreciate that – although being underdeveloped in certain areas – these countries’ EU membership is what makes them important for New Zealand: they participate in the EU’s decision-making mechanism with votes both at the Council and in the Parliament. As there is a general move towards strengthening the role of the Parliament in the EU, concentrating merely on diplomatic visits (or even neglecting them, as the media suggests) will be not sufficient to make New Zealand’s interest understandable for those public delegates representing their countries in the European Parliament. And, it should not be forgotten that the EU Foreign Ministers at their meeting in Brdo pri Kranju (Slovenia) on 28 and 29 March 2008 supported the final goal of enlarging the EU to 35 Member States, in line with the Commission’s communication of 5 March 2008 “Western Balkans: Enhancing the European Perspective” (IP/08/378). This next phase of enlargement will add an additional 95,203,000 people to the 113,452,000 inhabitants from the new EU12 countries (making the total EU population according to EUROSTAT estimates to be 588,055,000).

The danger is not insignificant that neglecting these countries in all areas because of their marginal economic relevance for New Zealand will be very counter productive in the long-term, as they will not have any reciprocal interest to support New Zealand’s export access to the EU. Thus visibility – either through providing aid and technology, tourism, culture, educational or scientific projects and even trade – will be increasingly important and will

be hard to maintain through diplomatic visits only. It is undeniable, that a large-scale New Zealand promotion across all areas in all countries is impossible to fund. Identifying potential areas of collaboration with individual countries can, however, build a base for a more developed, cost effective regional plan to raise awareness and support by these nations for New Zealand's goals. In line with these suggestions the last research question to be answered is what are potential areas for collaboration between New Zealand and Hungary?

What are the areas of potential collaboration between New Zealand and Hungary that are worth considering in the future?

Most opportunities for intensifying relations between New Zealand and Hungary were identified in areas like research (particularly involving universities and the responsible government ministries); international peacekeeping, aid development and implementation strategies (interest expressed by Hungarian Foreign Ministry); and collaboration on global environmental protection matters. In addition, Hungarian respondents suggested the prospects for strengthening the relationship between the Hungarian and the New Zealand Parliament and between the operational departments of the different ministries. Referring back to the 'Speaker's Tour' debate the Hungarian expectation of strengthening relations between parliaments underlines the value these mutual visits have in the international diplomacy.

New Zealand's priorities in this relationship are continuing to receive Hungarian support in advocating the reform of the Common Agricultural Policy of the EU and in the WTO as well as signing the mutual Working Holiday Scheme (an objective of the 2008 Speaker's tour) and the Social Security Agreement. While statistics showed a gradual rise in trade

relations between New Zealand and Hungary, considering the rather saturated Hungarian market new entrance is quite difficult. Reflecting on theoretical insights, New Zealand companies might have comparative advantages either in special market niches or, compared with domestic production costs (including freight and export levies) setting up production companies (green field investments) in Hungary to supply the wider EU and accession state region might be a more promising alternative at present (see Fletcher Ltd.)

Where should the information on market possibilities or on other potential areas of collaboration come from? Research participants expected relevant government agencies to provide accessible, easy identifiable country specific databases including statistics, lists of agencies, links to organisations to be approached or links to important English-language websites in Hungary (legal conditions, EU tenders, etc.). On the other hand, as the Theory on Ethnic Networks suggested, ethnic groups within a country can also provide excellent information through their links to their countries of origin about potential niches in their markets, can act as intermediaries for other domestic networks or professionals as well as decision makers. Similar high importance should be given to the links the New Zealand Diaspora established abroad, in our case in Hungary and in the wider Eastern European region.

12.6 Recommendations

The analysis of the research results and of their wider implications revealed that different areas and agencies (academic research, public education, media, immigration and Diaspora policy, government, diplomacy, NZTE, NZ Tourism Board) play a significant role in shaping New Zealand's foreign policy, in this particular case New Zealand's EU policy. It was shown that relying just on high level diplomatic visits without the corresponding

support of other agencies will not be sustainable long-term, especially in an EU of 35 Member States. The main argument of the thesis is that adhering to a policy of ‘either strong trade or nothing’ when thinking about New Zealand’s representation *in any form* within the new and future EU countries will bring the country ‘nothing’ as well when applying for export allowances or inclusion in different projects of global importance, mainly financed by the EU.

In the following, suggestions are differentiated by different industries (academia, public education, foreign posts, government, and media). These suggestions, are, of course, not tested solutions, but act as a starting point for further ideas to be generated on the problem. Before discussing these separately in more detail, as a first step the development of a comprehensive national, interdisciplinary “EU Framework” encompassing all institutions, which can and should contribute to the fulfilment of New Zealand’s interests in the EU is outlined.

This “EU Framework” identifies New Zealand’s goals in the EU and the EU’s importance for New Zealand in different areas and, besides including the existing “West-EU15” policy (which surely has its own weaknesses), incorporates additional “New” and “Future EU Member States” policies. The operational tasks of the policy implementation should be allocated to the main agents/institutions, demonstrating the interconnections between them where relevant, and ensuring that there is no unintended contradiction between their individual policies (e.g. immigration policy to attract the return of expatriates versus foreign policy initiatives promoting overseas experience). Table 12.1 is a first attempt to visualise such a framework using the SWOT methodology (Strengths-Weaknesses-Opportunities-Threats).

It is argued that the framework should be initiated and co-ordinated by the New Zealand Government by involving at relevant stages and tasks a broad range of institutions across different sectors (academia involved in EU related research, ethnic councils of European origin, media, MFAT with its European outposts, Immigration New Zealand, Ministry of Education, New Zealand Diaspora living in the wider Europe, NZTE, NZ Tourism Board).

Table 12.1: “New Zealand’s EU Policy Framework” – Draft

“NZ’S EU POLICY” FRAMEWORK						
STEP 1.	National Goals and Interests in EU context (Definitions)					
2.	SWOT analysis of present EU-NZ relations in general (in relation to goals and interests)					
3.	EU15 Policy SWOT analysis		EU12 Policy SWOT analysis		EU8 Policy SWOT analysis	
4.	Tasks	Agents	Tasks	Agents	Tasks	Agents

As a first step New Zealand’s short and long-term national goals and interests in EU context should be defined followed by a SWOT analysis of present EU-NZ relations in reflection of these goals. The results of steps 1 and 2 should be communicated to the broad range of stakeholders identified above.

The third step includes a closer evaluation of New Zealand’s EU policy and strategies – where these exist – in the old, new (since 2004), and future EU countries. This step has a special strategic importance as – to receive a comprehensive picture - it should be undertaken country wise. Academia might play a significant role by undertaking research at this stage, similar to this case study of Hungary. Although the division of countries as

suggested follows the mainstream pattern of ‘old’ EU15, ‘new’ EU12 and ‘future’ EU8, this does not preclude the final country specific research results suggesting a re-grouping of countries which show similar patterns to build effective strategies. (For example, while Portugal and Spain are ‘old’ EU countries, New Zealand’s visibility in them might be as similarly low as in Hungary.)

The final step 4 allocates the tasks identified by step 3 to different agents (institutions, organisations, individuals) and requires them to develop and implement action plans, in close collaboration to each other where this is advantageous. Although not listed separately in the table, monitoring, evaluation and communication of project result should be continuously undertaken. Based on the conclusions under section 12.5, Table 12.2 shows using the example of Hungary how such a country specific analysis might be summarised and compared with that of other countries.

As the research showed quite frequent diplomatic visits, academic and research in certain areas, a small scale but growing bilateral trade, and some active members of both countries’ Diaspora build the strengths of bilateral relationships between New Zealand and Hungary. On this basis survey results as well as diplomatic visits revealed a number of areas worth investigating for future collaboration (see examples under ‘Opportunities’ in Table 12.2). Undertaking concrete steps at an operational level to realize the identified opportunities would also contribute to the elimination of certain weaknesses in the two countries’ relations (like low interaction at operational level and low visibility in diplomatic areas). Under the segment ‘Weaknesses’ in Table 12.2 areas are listed where a harmonization at higher level (law, diplomacy) is necessary. As the report on the 2008 Speaker’s Tour revealed both countries are aware of these shortages and a positive

development in the following two years can be expected (Working Holiday Scheme and Social security Agreement). The two weakest areas that require further and deeper analysis and project development are that of the promotion policy of NZTE and Tourism New Zealand as well as a more effective Diaspora and Ethnic Network strategy. Although at first sight it might be a positive sign that the last segment of the table lists just two problem areas under ‘Threats’, leaving them unaddressed, however, might result in more severe negative effects long-term. First, the question of Hungary’s preserving interests of the CAP reform, and second, the gradual decline of already established New Zealand products in the Eastern and Central European market due to lack of adjusted promotion, delivery and marketing policy.

Table 12.2: New Zealand – Hungary Relations in EU Context - SWOT Analysis

<p>STRENGTHS:</p> <ul style="list-style-type: none"> • Diplomatic ties in the form of high level bilateral visits; • Small scale but growing bilateral trade; • Some academic and research relations (music science, diary and farm management); • Some active member of the New Zealand Diaspora in Hungary and Hungarian Diaspora in New Zealand; 	<p>WEAKNESSES:</p> <ul style="list-style-type: none"> • Low visibility of NZ in Hungary in general; • Lack of any kind of NZ promotion; • Low level of interaction at operational levels; • NZ Diaspora’s experiences and connections not utilised; • Lack of Working Holiday Scheme or similar work visa for young people; • Hungary is not accredited to any NZTE office on the NZTE foreign posts website; • Lack of any reference where to turn to for business and legal information or network opportunities on the NZTE site for those interested in Hungary;
<p>OPPORTUNITIES:</p> <ul style="list-style-type: none"> • NZ Diaspora in Hungary; • Hungarian minority in New Zealand; • More intense student and researcher exchanges in certain areas; • Immigration: Hungary as source of young professionals – most of them speak English); • Tourism: might grow when temporary working opportunities given; • Collaboration between different professional and ministerial institutions (e.g. “sell” NZ training in aid development and implementation); 	<p>THREATS:</p> <ul style="list-style-type: none"> • Hungary’s interests in preserving the CAP and in agricultural market protection; • Even existing New Zealand’s brands may disappear in Hungary without additional promotion and regular availability in quantities demanded;

Through such a SWOT analysis tasks can be identified and allocated to agents responsible for further action plans, which should be developed by comparing the results of other countries with each other. As the case study of Hungary was researched within the academic frame and financial restrictions of a PhD thesis, and not as part of such an empirical project as designed above, the following suggestions and task allocations should not be considered as solutions but rather as starting points for further idea generation on the problems presented.

According to Table 12.3 most tasks are allocated to not just one but to different agents and institutions stressing the importance of collaboration between them. According to the foreign policy topic of the thesis, most suggestions are made to the Government, MFAT, NZTE, and academia involved in EU related research projects. On the other hand, however, the wide spectrum of problem setting made it important to address other institutions like the Ministry of Education, Ministry of Social Development, Immigration Office, New Zealand Tourism Board and those involved in media and journalism either as training providers or as employers. As the background and importance of tasks addressed in the table have been discussed in relevant sections in more detail, no further elaboration on them will be undertaken here to avoid repetitions.

Table 12.3: Suggestion for Tasks and Task Allocation Based on Research Results

Tasks	Agents
1.Exploring similarities or differences of New Zealand's visibility in and connections with the other EU12 countries;	• Academia in collaboration with MFAT and its relevant foreign posts;
2.Exploring the New Zealand Diaspora in the EU12 countries (expertise, connections, availability);	• Academia in collaboration with MFAT and its relevant foreign posts;
3.Exploring ethnic networks from the EU12 countries in New Zealand;	• Academia (help from Human Rights Commission, NZ Federation of Ethnic Councils, Immigration Office);
4.Investigation of the effectiveness of country cross-accreditations at different NZ Embassies in the EU in terms of securing NZ's visibility EU wide;	• MFAT
5.Investigation of the effectiveness of NZ Honorary consulates in the EU in terms of securing visibility and connections with Diaspora;	• MFAT
6.Investigation of the discrepancies between the immigration policy towards the NZ Diaspora and foreign political approaches of the NZ Diaspora;	• Government in collaboration with Immigration Office and MFAT ;
7.Hungary should be accredited to one of the NZTE offices in the NZTE foreign posts website;	• NZTE; MFAT
8.There should be at least a reference to other Internet sites on market and legal information, investment opportunities, NZ Diaspora in Hungary on the relevant NZTE foreign post site (the same for other new and future EU member States);	• NZTE; MFAT
9.Investigation of the relevance of at least one additional "Trade/Cultural/Tourism Representation" post in the new EU12 to promote NZ (Hungary surrounded by 7 neighbours plus working connections with the Balkan states as possible allocation?);	• MFAT; NZTE; NZ Tourism Board;
10."New Zealand Awareness Day/Week" EU wide each 2 nd or 3 rd year	• Government in association with MFAT; NZTE; NZ Tourism Board; NZ Diaspora
11. Beside Hungary, are other new EU Member States interested in running a "NZ aid development and peace-keeping experience" training?	• Government; MFAT;
12. Are there any similarities between the difficulties faced at societal integration and educational development of Maoris in New Zealand and Romas in Hungary? What are the most successful projects in both countries?	• Ministry of Social Development in collaboration with Academia, Ministry of Maori Development, Ministry of Education (to approach in Hungary: Hungarian Government, Hungarian Ministry of Education);
13. Enhance general public knowledge and awareness concerning Europe: Reintegration of subjects covering world History and Geography into the core subjects of the National Curriculum until Year 13;	• Ministry of Education in collaboration with Academia;
14. Media education: education of journalists and those involved in news reporting about the EU and the wider European continent;	• Journalism / Media course and training providers and employers in collaboration with Academia involved in EU research;

12.7 Overall Conclusion

Based on the problem setting and as acknowledged both by New Zealand academics and politicians, New Zealand has to strengthen its visibility in the new EU Member States in order to secure the successful implementation of its foreign policy goals in the region. The thesis showed that thinking merely in business opportunity terms while assessing potential diplomatic partner nations is not enough. Neglecting the new EU Member States on the basis of their currently low economic contribution to New Zealand's trade relations may cost the country more in the long-term than the development of an effective representation policy for the region. The thesis has highlighted potential areas worth considering for further development of relations between New Zealand and Hungary and has called for similar studies focusing on New Zealand's possibilities in the other Central and Eastern European Member States.

Having survived the 400 pages of the thesis through which the reader was confronted with many pros and cons concerning the relevance of developing relationships between two such distant countries, he/she might rightly ask the fundamental question: are New Zealand – Hungarian relations actually in New Zealand's interests or rather should New Zealand spend its money elsewhere? Based on these research results the author's opinion is that with a proper adjusted plan for the Central and Eastern European region and through effective co-ordination across areas discussed before, it is in New Zealand's interest to foster relations to Hungary and to the region and this is possible in a cost effective way.

Finally, the added utility of this thesis is in the hope that the outcome of this research goes beyond the scientific goal of addressing the research questions established at the outset. The analysis is intended to create greater reciprocal interest among New Zealand and

Hungarian political and economic actors, to promote long lasting relationships among the project participants, and to contribute to greater understanding and co-operation between the two countries.

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World Trade Organisation

www.wto.org

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APPENDIX IICOVER LETTER TO POTENTIAL RESEARCH PARTICIPANTS

20 July 2005

Dear Mr./Mrs/Ms,

In 2004 ten new countries joined the EU, with this number set to increase further in 2007. These enlargements will impact upon New Zealand's relationship with the EU, one of New Zealand's most important diplomatic and trading partners. With these changes in mind, I am writing my PhD thesis on the development of relationships between New Zealand and Hungary across different sectors. The aim of my research is to explore further opportunities between the two countries.

I would greatly appreciate your assistance in this research by completing one written questionnaire (it will take approximately 10-15 minutes of your time) and eventually a personal interview (which will take approximately 30 minutes) in 2005 and 2007. This approach will be extremely helpful in researching the dynamics of the public opinion on the Hungary-New Zealand relations.

The questionnaires are anonymous: the data collected treated in the strictest confidence. You have the right to withdraw from the project at any time, including withdrawal of any information provided. The results of the research may be published but the identity of participants will not be made public without written consent.

The participants of the research, both from Hungary and New Zealand, represent different sectors within each country - such as diplomacy, business, agriculture, education, research, culture, and tourism. Also included will be individuals who have had, or intend to establish relationships with the other country.

Please inform me if you wish to be included on the participants list to facilitate future contacts with other research participants.

Thank you for assisting my research. Please do not hesitate to contact me, or my supervisor Professor Martin Holland at the NCRE, if you have any questions concerning this research.

Yours Sincerely

Adrienna Ember
National Centre for Research on Europe
University of Canterbury

APPENDIX III



PARTICIPANTS LIST (Template)
PHD SURVEY “NEW ZEALAND’S OPPORTUNITIES IN HUNGARY” 2005
conducted by Adrienna Ember, National Centre for Research on Europe,
University of Canterbury, New Zealand



This Participants List includes only individuals who wished to appear on the list. The goal of this list is to enhance networking between New Zealand and Hungary. Before you pass on any data to third parties, please ask those affected for their permission.

Surname, First Name

Company / Institution

Profile / Activity

Contact details

**“RELATIONSHIPS BETWEEN NEW-ZEALAND AND HUNGARY”
QUESTIONNAIRE TYPE “A” (INDIVIDUAL), 2005**

Thank you very much for participating in this research. It should take approximately 10 minutes to complete. Where answer categories are “closed”, please select all that apply to you.

By completing the questionnaire it is understood that you have consented to participate in the project, and that you consent to publication of the results of the project with the understanding that anonymity will be preserved.

A. YOUR BACKGROUND

1. *Please tick as many as appropriate:*

New Zealand citizen/resident ☐

Hungarian citizen/resident ☐

Which country do you live in currently? _____

2. Languages spoken: English ☐

Hungarian ☐

Other ☐ _____

B. YOUR RELATIONSHIPS BETWEEN NEW ZEALAND AND HUNGARY

3. *How did you come first in contact with Hungary? Please tick as appropriate.*

I was born in Hungary. ☐

Through friends who visited Hungary ☐

Through colleagues who visited Hungary ☐

Through school education ☐

As a tourist ☐

I read about Hungary in newspapers ☐

I heard about Hungary on radio ☐

I heard about Hungary on television ☐

I had other sources (please specify): _____

4. Who or what is/was your most useful source of information about Hungary? _____

5. Do you still maintain any kind of relationship in Hungary? **YES** ☐ **NO** ☐

6. *If YES, please tick as appropriate:*

In Hungary I have family members ☐

friends ☐

other relationships ☐ *Please specify:* _____

7. *If NO, please answer the following question:*

Do you intend to build up relationships in Hungary within the next 3 years?

YES ☐

NO ☐

If YES, please give details: _____

C. EUROPEAN UNION (EU) - NEW ZEALAND (NZ) - HUNGARY

8. Hungary became a member of the EU on the 1st of May 2004. *Please tick whether you agree with the following statements:*

Hungary's EU membership brings	<u>YES</u>	<u>NO</u>	<u>NOT SURE</u>
• challenges to New Zealand.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• new opportunities for New Zealand.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• challenges to my company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• new opportunities for my company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please give details: _____

9. How well do you think NZ is represented in Hungary in the following areas? *Please tick as appropriate:*

Area	Level of Representation			
	Poorly represented	Adequately represented	Over-represented	Don't know
Culture				
Diplomacy				
Education				
Science				
Sport				
Tourism				
Trade				

Please explain _____

10. How do you think about the level of public information available in New Zealand about Hungary? *Please tick as appropriate:*

- Poor ☐
- Adequate ☐
- Too much ☐

11. According to your experiences what are the main difficulties in establishing and maintaining relationships between New Zealand and Hungary? *Please tick as appropriate:*

- Distance ☐
- Language barriers ☐
- Unfamiliarity with customs and law ☐
- Lack of market knowledge ☐
- Lack of networking ☐
- Lack of financial investment ☐

Other (*please specify*): _____

12.What resources would you require in order to benefit more from opportunities in Hungary? *Please tick as appropriate:*

Information about history/culture and traditions ☐

Information about legal terms / conditions ☐

Information on market developments ☐

Other (*please specify*): _____

Thank you very much for your valuable contribution to this research. Please feel free to use the space below to write any comments on the topic. Upon completion please put the questionnaire into the attached envelope and send it back to:

Regards

Adrienna Ember

***Adrienna Ember
NCRE
University of Canterbury
Christchurch***

5.What is the breakdown of the company ownership: _____ % New Zealander,
 _____ % Hungarian,
 _____ % Other nationality

6. *Please tick as appropriate:*

The head office of my company is in: New Zealand ☐
 Hungary ☐
 Other country ☐ _____

7. My company has a representative/subsidiary in: New Zealand ☐
 Hungary ☐
 Other country ☐

8. Number of employees of the company in New Zealand: _____
 in Hungary: _____

9. Does your company have business relations between New Zealand and Hungary?
 YES ☐ NO ☐

If YES, please continue with question 11.

If NO, please answer the following question:

10. Does your company intend to build up relationships in Hungary within the next 3 years? YES ☐ NO ☐

If YES, please give details: _____

Please continue with question 18. on Page 3.

11. We have had business relations between the two countries since: _____ (year)

Please give details on how this business connection started: _____

12. The short-term (up to 5 years) goals from this business relationship are: _____

13. The long-term (5-10 years) goals from this business relationship are: _____

14. Please tick as appropriate:

The turnover resulting from **this** business relationship in 2004 was (in NZD):

under 10,000 ☐

between 10,000 – 100,000 ☐

between 100,000 – 500,000 ☐

between 500,000 – 1 Million ☐

over 1 Million ☐

15. Have you used any country as a springboard to Hungary? **YES** ☐ **NO** ☐

If YES, please specify: _____

16. Has your company used consultancy services when establishing its business relationships with Hungary? **YES** ☐ **NO** ☐

If YES, from which institutions/organisations?

17. Who or what institution was the most useful source of information about doing business in Hungary?

C. EUROPEAN UNION (EU) - NEW ZEALAND (NZ) – HUNGARY

18. Hungary became a member of the EU on the 1st of May 2004. *Please tick whether you agree with the following statements:*

Hungary's EU membership brings	<u>YES</u>	<u>NO</u>	<u>NOT SURE</u>
• challenges to New Zealand.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• new opportunities for New Zealand.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• challenges to my company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• new opportunities for my company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please give details:

19. How well do you think NZ is represented in Hungary in the following areas? *Please tick as appropriate:*

Area	Level of Representation			
	Poorly represented	Adequately represented	Over-represented	Don't know
Culture				
Diplomacy				
Education				
Science				
Sport				
Tourism				
Trade				

Please explain _____

20. How do you think about the level of public information available in New Zealand about Hungary? *Please tick as appropriate:*

- Poor ☐
 Adequate ☐
 Too much ☐

21. According to your experiences what are the main difficulties in establishing and maintaining business relationships between New Zealand and Hungary? *Please tick as appropriate:*

Distance ☐

Language barriers ☐

Unfamiliarity with customs and law ☐

Lack of market knowledge ☐

Lack of networking ☐

Lack of financial investment ☐

Other (*please specify*):

22. What resources would you require in order to benefit more from opportunities in Hungary? *Please tick as appropriate:*

Information about legal terms / conditions ☐

Information on market developments ☐

Business networking ☐

Other (*please specify*):

Thank you very much for your valuable contribution to this research. Please feel free to use the space below to write any comments on the topic. Upon completion please put the questionnaire into the attached envelope and send it back to:

Adrienna Ember

NCRE

University of Canterbury

Christchurch

Regards

Adrienna Ember

APPENDIX VI

“RELATIONSHIPS BETWEEN NEW-ZEALAND AND HUNGARY”

QUESTIONNAIRE TYPE “C” (NON-PROFIT, PUBLIC OR GOVERNMENTAL ORGANISATION), 2005

Thank you very much for participating in this research. It should take approximately 10 minutes to complete. Where answer categories are “closed”, please select all that apply to you.

By completing the questionnaire it is understood that you have consented to participate in the project, and that you consent to publication of the results of the project with the understanding that anonymity will be preserved.

A. YOUR BACKGROUND

1. Please tick as many as appropriate:

New Zealand citizen/resident ☐

Hungarian citizen/resident ☐

Which country do you live in currently? _____

2. Languages spoken: English ☐

Hungarian ☐

Other ☐ _____

B. YOUR ORGANISATION/INSTITUTION

3. In which year was your organisation/institution established? in _____.

I don't know ☐

4. Please tick as appropriate:

Ownership: governmental ☐

private foundation ☐

public foundation ☐

5. What is the breakdown of the ownership: _____ % New Zealander,
 _____ % Hungarian,
 _____ % Other nationality

6. Please tick as appropriate:

Sector of activity:

Agriculture	<input type="checkbox"/>
Culture	<input type="checkbox"/>
Diplomacy	<input type="checkbox"/>
Education	<input type="checkbox"/>
Health	<input type="checkbox"/>
Science / Research	<input type="checkbox"/>
Sport	<input type="checkbox"/>
Other (<i>please specify</i>):	

Please give more details on your organisation's profile/services:

7. The head office of my organisation is in: New Zealand ☐
Hungary ☐
Other country ☐

8. My organisation has a representative in: New Zealand ☐
Hungary ☐
Other country ☐

9. Does your organisation/institution maintain relationships between New Zealand and Hungary? **YES** ☐ **NO** ☐

If YES, please continue with question 11.

If NO, please answer the following question:

10. Does your company intend to build up relationships in Hungary within the next 3 years? **YES** ☐ **NO** ☐

If YES, please give details:

Please continue with question 17. on Page 3.

11. We have maintained relationships between the two countries since: (year).

Please give details on how this relationship started:

12. The short-term (up to 5 years) goals from this relationship are:

13. The long-term (5-10 years) goals from this business relationship are: _____

14. Have you used any country as a springboard to Hungary? **YES** ☐ **NO** ☐

If YES, please specify: _____

15. Has your institution used consultancy services when establishing its relationship with Hungary? **YES** ☐ **NO** ☐

If YES, from which institutions/organisations?

16. Who or what institution was the most useful source of information concerning Hungary? _____

C. EUROPEAN UNION (EU) - NEW ZEALAND (NZ) - HUNGARY

17. Hungary became a member of the EU on the 1st of May 2004. *Please tick whether you agree with the following statements:*

Hungary's EU membership brings	<u>YES</u>	<u>NO</u>	<u>NOT SURE</u>
• challenges to New Zealand.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• new opportunities for New Zealand.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• challenges to my company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• new opportunities for my company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please give details: _____ -

18. How well do you think NZ is represented in Hungary in the following areas? *Please tick as appropriate:*

Area	Level of Representation			
	Poorly represented	Adequately represented	Over-represented	Don't know
Culture				
Diplomacy				
Education				
Science				
Sport				
Tourism				
Trade				

Please explain: _____

19. How do you think about the level of public information available in New Zealand about Hungary? *Please tick as appropriate:*

- Poor ☐
 Adequate ☐
 Too much ☐

20. According to your experiences what are the main difficulties in establishing and maintaining relationships between New Zealand and Hungary? *Please tick as appropriate:*

- Distance ☐
 Language barriers ☐
 Unfamiliarity with customs and law ☐
 Lack of market knowledge ☐
 Lack of networking ☐
 Lack of financial investment ☐

Other (*please specify*): _____

22.What resources would your organisation require in order to benefit more from opportunities in Hungary? *Please tick as appropriate:*

Information about legal terms / conditions ☐

Information on market developments ☐

Other (*please specify*): _____

Thank you very much for your valuable contribution to this research. Please feel free to use the space below to write any comments on the topic. Upon completion please put the questionnaire into the attached envelope and send it back to:

*Adrienna Ember
NCRE
University of Canterbury
Christchurch*

Regards

Adrienna Ember

APPENDIX VII**COVER LETTER FOR FOLLOW-UP SURVEY 2007**

Dear Mr/Mrs/Ms _____,

Two busy years have passed since your valuable contribution to my Ph.D.-survey on the relationship between New Zealand and Hungary in 2005. Many participants found the survey results thought-provoking and made use of the Participants List to foster contacts between New Zealand and Hungary.

To be able to draw some final conclusions from my research I would very much appreciate it if you could answer the 5 questions in the attached follow-up survey.

To accommodate the wishes of many participants, this time the questionnaire has been sent via e-mail. Please be assured that your response will remain anonymous. Please let me know should you prefer the questionnaire to be sent via post. I am happy to send it to you with a return envelope.

You will receive further results of the follow-up surveys from New Zealand and Hungary around August 2007.

Please do not hesitate to contact me with any questions or suggestions. Your valuable contribution is much appreciated.

Kind regards,

Adrienna Ember

www.europe.canterbury.ac.nz

NCRE, Level 2 Geography Building
Private Bag 4800, University of Canterbury
Christchurch, NEW ZEALAND

APPENDIX VIII

“RELATIONSHIPS BETWEEN NEW-ZEALAND AND HUNGARY”

FOLLOW-UP QUESTIONNAIRE 2007

Thank you very much for participating in this research. It should take approximately 5 minutes to complete. Where answer categories are “closed”, please select all that apply to you.

By completing the questionnaire it is understood that you have consented to participate in the project, and that you consent to publication of the results of the project with the understanding that anonymity will be preserved.

EUROPEAN UNION (EU) - NEW ZEALAND (NZ) - HUNGARY

1. Hungary became a member of the EU on the 1st of May 2004. *Please tick whether you agree with the following statements:*

Hungary’s EU membership brought	<u>YES</u>	<u>NO</u>	<u>NOT SURE</u>
• challenges to New Zealand.		
• new opportunities for New Zealand.		
• challenges to my company.		
• new opportunities for my company.		

Please give detail: _____

2. How well do you think NZ is represented in Hungary in the following areas? *Please tick as appropriate:*

	Level of Representation			
Area	Poorly represented	Adequately represented	Over-represented	Don’t know
Culture				
Diplomacy				
Education				
Science				
Sport				
Tourism				
Trade				

Please explain: _____

3. How do you think about the level of public information available in New Zealand about Hungary? *Please tick as appropriate:*

Poor
 Adequate
 Too much

4. According to your experiences what are the main difficulties in establishing and maintaining relationships between New Zealand and Hungary? *Please tick as appropriate:*

Distance
 Language barriers
 Unfamiliarity with customs and law
 Lack of market knowledge
 Lack of networking
 Lack of financial investment

Other (*please specify*): _____

5. What resources would you/your organisation require in order to benefit more from opportunities in Hungary? *Please tick as appropriate:*

Information about legal terms / conditions
 Information on market developments

Other (*please specify*): _____

Thank you very much for your valuable contribution to this research. Please feel free to use the space on the following page to write any comments on the topic. Upon completion please send the questionnaire back to (e-mail address) or per post to Adrienna Ember, NCRE, University of Canterbury, Christchurch.

***Regards,
 Adrienna Ember***

Comments: